

# UPDATE ON SBA'S PANDEMIC RESPONSE PROGRAMS

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## HEARING BEFORE THE COMMITTEE ON SMALL BUSINESS UNITED STATES HOUSE OF REPRESENTATIVES ONE HUNDRED SEVENTEENTH CONGRESS FIRST SESSION

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TUESDAY, APRIL 20, 2021

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON SMALL BUSINESS,  
*Washington, DC.*

The Committee met, pursuant to call, at 10:02 a.m., in Room 2360, Rayburn House Office Building. Hon. Nydia Velázquez [chairwoman of the Committee] presiding.

Present: Representatives Velázquez, Crow, Davids, Phillips, Newman, Bourdeaux, Chu, Evans, Delgado, Houlahan, Kim of New Jersey, Craig, Schneider, Luetkemeyer, Williams, Hagedorn, Stauber, Meuser, Tenney, Kim of California, Van Duyne, Donalds, Salazar, and Fitzgerald.

Chairwoman VELÁZQUEZ. Good morning. I call this hearing to order.

Without objection, the Chair is authorized to declare a recess at any time.

Let me begin by saying that standing House and Committee rules and practice will continue to apply during hybrid proceedings. All Members are reminded that they are expected to adhere to these standing rules, including decorum.

House regulations require Members to be visible through a video connection throughout the proceeding, so please keep your cameras on. Also, please remember to remain muted until you are recognized to minimize background noise. If you have to participate in another proceeding, please exit this one and log back in later.

In the event a Member encounters technical issues that prevent them from being recognized for their questioning, I will move to the next available Member of the same party and will recognize that Member at the next appropriate time slot provided they have returned to the proceeding.

For those Members physically present in the Committee room today, we will also be following the health and safety guidelines issued by the attending physician. That includes social distancing and especially the use of masks. Members and staff are expected to wear a mask at all times while in the hearing room, and I thank you in advance for your commitment to a safe environment for all here today.

The COVID-19 pandemic sparked a once-in-a-lifetime crisis for American small businesses. The pandemic hit small firms the hardest, resulting in the most significant reduction in business ownership in U.S. history. Facing an unprecedented wave of small busi-

ness closures, Congress acted by creating economic relief programs to help businesses stay afloat through the crisis.

Since the passage of the CARES Act, the SBA has approved 9.9 million PPP loans worth \$762 billion, 3.77 million EIDL loans for approximately \$195 billion and has disbursed 5.8 million EIDL advances amounting to \$20 billion. This was a tall order for a small agency like SBA. It administered more aid during the COVID crisis than it had for all other disasters combined during its 67-year history.

I commend the SBA's staff who have worked diligently around the clock, often 7 days a week for over a year now. Their dedication and work, while not perfect, have made a difference in the lives of millions of small business owners and workers. Now is the time to continue this Committee's work to take a hard look at this effort and learn lessons for the future. I hope to examine the problems uncovered by our nation's watchdogs and hear about SBA's efforts to address them.

Since the inception of the pandemic, the Government Accountability Office and SBA's Office of the Inspector General have combined to release 16 reports calling attention to SBA's management of these programs. In fact, just last month, GAO added PPP and EIDL to its annual "High-Risk List," identifying the economic relief program as being at high risk for waste, fraud, and abuse. These reports are sobering and a call for action.

To that end, in the last Congress, I worked closely with then Ranking Member Steve Chabot and the Members of this Committee to conduct a robust oversight of the SBA. We held hearings with the administrator and other high-level officials in charge of the economic relief programs. We sent letters to the agency, placed numerous calls, and requested countless briefings.

We were relentless in our pursuit of making sure these programs were working effectively for America's small businesses. It is my hope that in this Congress the Committee can put our partisan differences aside and work together to support the new administration to deliver much needed economic assistance to America's small businesses.

It is important to note that the administration inherited a number of open recommendations from GAO and the IG. In the first couple of months in office, the Biden administration has heeded those recommendations and made it a priority to restore program integrity in PPP and EIDL.

The agency implemented a long review plan, maximizing program integrity. In 2021, before issuing an SBA loan number, the agency began conducting front-end compliance checks on new First Draw PPP and Second Draw PPP applications using a modified version of the automated screening tool and information from the Department of Treasury Do Not Pay lists.

I applaud the new administration for taking these concerns seriously and acting quickly to prevent emergency loans from going to bad actors. As I always say, if something is not perfect, let's see what we can do to make it better.

I want to thank Mr. Ware and Mr. Shear for joining us here today and I now yield to the Ranking Member for his opening statement.

Mr. LUETKEMEYER. Thank you, Madam Chair. And good morning to all, and a special thank you to Mr. Shear and Mr. Ware for taking time to speak with us today.

The COVID-19 pandemic has thrown never-before-seen obstacles in front of every American, especially our Nation's small businesses. From the devastating state and local shutdowns to the struggle to find access to sufficient capital and employees to help survive, our country has never faced a disruptive problem like this.

Regardless of who has held the gavel over the years, Congress, and specifically this Committee, has long held the view that small businesses are vital to the health of this Nation's economy and security. The Small Business Act of 1953 and the Small Business Investment Act of 1958 established that the U.S. Small Business Administration's function is to aid, counsel, assist, protect insofar as possible the interests of all small business concerns.

This continues to hold true today nearly 70 years later.

Equally important to these roles is the need of the SBA to maintain vigorous oversight of its own programs. Unfortunately, we have seen numerous blunders—and I use that term very politely—as the SBA has neglected to be good stewards of our constituents' tax dollars. Over the course of the last year we have seen countless stories of how the Paycheck Protection program, Economic Injury Disaster Loan program (EIDL), and the EIDL advances have benefited small businesses, kept employees on their payroll, and helped pay their mortgage, rent, and utilities. Without these critical programs, more of our country's smallest firms would have been closed permanently and millions of employees would have been out of work. That is the good news.

The bad news is that the SBA has mismanaged these programs and opened them up to unprecedented levels of waste, fraud, and abuse, limiting their effectiveness and previously squandering taxpayer dollars that could help our economy move forward. This is unacceptable.

We will hear from the SBA's Inspector General and Federal Government's watchdog, the Government Accountability Office during this hearing citing specific examples of troubling failures by the SBA in administering these lifesaving programs. Those of us on this side of the aisle have been working diligently to help rectify these problems. Over the initial months of the 117th Congress, Small Business Committee Republicans offered numerous constructive amendments to President Biden's COVID Relief Bill that moved through Congress via the reconciliation process.

More specifically, we offered amendments that would enhance and improve the oversight of SBA's COVID programs. For example, we offered amendments that would significantly increase the appropriation for SBA's Office of Inspector General to expand oversight of the SBA programs, specifically calling on the administrator to closely examine waste, fraud, and abuse within the EIDL programs.

And while my colleagues on the other side of the aisle had many kind things to say about most of our ideas at the time, not one Democrat voted for any of our amendments. Perhaps after this hearing and the subsequent events that have taken place at the SBA, my friends on this side of the aisle will come to the table and

actually work with us on these serious issues. Do we really need another OIG alert detailing the impending doom of another congressionally-mandated SBA program like the one published hours before the Shuttered Venue Operators Grant program went live and quickly crashed? Nobody should want that level of dysfunction to occur again. The SBA had more than 3 months to pull this program together and they could not do it.

Small business owners have been waiting a long time for these funds to get out the door and we want those who qualify to get the money as expeditiously as possible, but the necessary safeguards need to be in place for all SBA programs before American taxpayer dollars are disbursed.

In addition to the SVOG program, we are still waiting for the majority of details, like the specific launch date, for the Restaurant Revitalization Fund Program contained in President Biden's partisan \$1.9 trillion COVID package. We tried adding more money and oversight protections to this important program during reconciliation markup, but again, the Democrats chose to go without this in a similar partisan manner.

I hope that all my friends across the aisle can agree that we cannot afford another bungled rollout of the restaurant program like we saw in the Shuttered Venue. We need to be accurately pursuing legislative vehicles to ensure that this dysfunction does not occur again.

Moving forward, the Committee must focus on these three areas. First, we need to prioritize eliminating existing fraud within these programs. Second, we need to delay implementation of all new programs until the SBA has the oversight controls in place to protect against waste, fraud, and abuse. And third, we need to take a hard look at restructuring the SBA as a whole. Should they be a direct lender? That is a question that needs to be answered.

I thank the Chairwoman for calling this timely hearing, and I yield back.

Chairwoman VELÁZQUEZ. Thank you, Mr. Luetkemeyer. The gentleman yields back.

If Committee Members have an opening statement prepared, we will ask that they be submitted for the record.

I would like to take a moment to explain how this hearing will proceed. Each witness gets 5 minutes to provide a statement, and each Committee Member will have 5 minutes for questions. Please ensure that your mic is on when you begin speaking and you return to mute when finished.

With that, I would like to introduce our witnesses.

Our first witness is Mr. Bill Shear. Mr. Shear is the director in GAO's Financial Markets and Community Investment Team. He leads GAO in addressing the SBA Community and Economic Development programs and Native American Housing issues. As part of his portfolio, he oversees evaluations of SBA contracting, disaster assistance, credit and counseling programs. He has a master's degree in Public Policy and a Ph.D. in Economics, both from the University of Chicago. Welcome, Mr. Shear.

Our second witness is the Honorable Hannibal "Mike" Ware, Inspector General of the SBA. Mr. Ware was sworn in as the Inspector General in May of 2018 and has been an effective leader in his

role and an asset to this Committee. He has 28 years of experience in the IG community rooting out fraud, waste, and abuse in Federal programs. Welcome, Mr. Ware.

Mr. Shear, you are now recognized for 5 minutes.

**STATEMENTS OF WILLIAM SHEAR, DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE; HANNIBAL “MIKE” WARE, INSPECTOR GENERAL, OFFICE OF THE INSPECTOR GENERAL, UNITED STATES SMALL BUSINESS ADMINISTRATION**

**STATEMENT OF WILLIAM SHEAR**

Mr. SHEAR. Thank you. Chairwoman Velázquez, Ranking Member Luetkemeyer, and members of the Committee, I am pleased to be here this morning to discuss our work on SBA’s Paycheck Protection Program and the Economic Injury Disaster Loan program.

SBA has made or guaranteed about 19 million loans and grants through these programs, providing about \$970 billion to help small businesses adversely affected by COVID-19.

In April 2020, SBA moved quickly on these programs to help small businesses survive during the pandemic. SBA initially put limited controls in place, leaving both programs susceptible to program integrity issues, improper payments, and fraud.

Since June 2020, we have made eight recommendations to SBA to improve the programs. In addition, we included these programs as a new area on our high-risk list in March 2021 because of their potential for fraud, significant program integrity risk, and need for much-improved program management and better oversight.

We also cited the results of SBA’s most recent financial statement audit in which the auditor issued a disclaimer of opinion on SBA’s financial statements because SBA was unable to provide adequate documentation to support a significant number of transactions and account balances related to PPP and EIDL.

Further, as we reported multiple times, SBA’s failure to provide us with data and documentation in a timely manner impeded efforts to ensure transparency and accountability for the programs. However, I am glad to report that we have received a significant amount of information and data from SBA and its contractors over the past 2-1/2 months. Here, I will quickly summarize steps SBA has begun to take to address initial deficiencies.

In June 2020, we recommended that SBA develop plans to respond to PPP risk to ensure program integrity, achieve program effectiveness, and address potential fraud. SBA has developed a loan review process and added upfront verifications before it approves new loans.

In November of 2020, we recommended that SBA expeditiously estimate improper payments for PPP and report estimates in error rates. SBA has now developed a plan for testing needed to estimate improper payments.

In January 2021, we recommended that SBA conduct portfolio-level analyses to detect potentially ineligible applications. SBA has not announced plans to implement this recommendation.

In March 2021, we recommended that SBA implement a comprehensive oversight plan for EIDL to ensure program integrity. SBA agreed to implement such a plan.

In March 2021, we made four recommendations, two for each program, for SBA to conduct a formal assessment and develop a strategy to manage fraud risk for each program. SBA said it would work to complete fraud risk assessments for both programs and continually monitor fraud risk.

We continue to review information SBA recently provided, including data on PPP loan forgiveness and details on the PPP and EIDL loan review processes. In addition, we have obtained additional information from a survey of PPP participating lenders, interviews with SBA's PPP contractors, and written responses to questions provided by SBA's EIDL contractor and subcontractors.

This concludes my statement. I would be pleased to respond to any questions you may have.

Chairwoman VELÁZQUEZ. Thank you, Mr. Shear.

Mr. Ware, you are now recognized for 5 minutes.

#### **STATEMENT OF HANNIBAL "MIKE" WARE**

Mr. WARE. Good morning. Chairwoman Velázquez, Ranking Member Luetkemeyer, and distinguished members of the Committee, thank you for inviting me to speak with you today and for your continued support of my office.

I come before you today in the midst of a historic challenge to the Nation, a challenge in which SBA has a pivotal and unprecedented role in stabilizing the U.S. economy. The men and women in my office have been working diligently to provide oversight of SBA's pandemic response. I am always proud to represent them publicly and to speak to you about our important work. We share in the Nation's grief for those lost in the pandemic and are keenly aware that nothing short of the public's trust is at stake in our oversight efforts.

SBA's [inaudible] trillion in lending authority through the PPP and the EIDL programs with the most recent tranche of lending authority being contained within the American Rescue Plan Act (ARPA).

As with OIG, the men and women of SBA have been running at a sprinter's pace; however, the race we are running has been more of a marathon. Nonetheless, we have sought to have an aggressive and focused approach to our oversight to ensure our work is properly calibrated and relevant. Congress recognized that the oversight required of the pandemic response was outsized for existing oversight resources [inaudible] government to include my office. We have received three supplemental appropriations to increase our oversight capacity. Initially, we focused on the recruitment of a mix of auditors, analysts, and criminal investigators to provide immediate and timely insight into these programs.

In December, we received funding directed to oversight of the EIDL program that seeks to address the rampant fraud identified by my office. These funds are being used to increase our investigative staff and enhance our data analytics capacity.

We received our most recent supplemental increase a couple of weeks ago, and those funds will be used to further increase our in-



vestigative capacity to combat fraud. Fraud investigations will be a decades-long effort due to the performance of these loans within SBA's portfolios and the statute of limitations on fraud. Our office will have approximately 40 percent more staff onboard after our hiring surges for EIDL and ARPA conclude than we had before March of 2020.

Even still, we recognized from the beginning that the level of oversight required would take a whole of government approach. We partner with law enforcement entities across government and join multiple taskforces to multiply our reach. Since the outset of the pandemic response, our strategy has been to prevent and deter fraud, waste, and abuse, and to identify and combat instances of the same.

The first step was the issuance of three reports sharing risks and lessons learned from our past oversight work. Principally, that most closely related, which is of the American Recovery and Reinvestment Act of 2009. These reports, as well as a fraud and scam alert were published before SBA made the first PPP and EIDL loans. Recognizing the speed at which lending was occurring in both these programs, we developed innovative report products to provide timely insight to our stakeholders. Our first flash report was published just a little over 30 days of PPP's implementation.

Our next report will come out in July, which found significant deficiencies in internal controls and rampant fraud within the EIDL program. We have issued 13 reports on SBA's pandemic response oversight with two more near issuance. Most recently, we issued a management alert on serious concerns about SBA's control environment and the tracking of performance results in the Shuttered Venue Operators Grant Program prior to the program launch.

In light of having to plan a program under tight constraints, it is imperative that SBA design the program in a way that provides for a balanced audit risk framework, consistent application of Federal regulations for grant management, clearly defined performance goals and adequate resources to effectively administer the program.

While our audit work was ongoing, our criminal investigators were aggressively pursuing fraud. On May 5, that is a little over a month after the first PPP loans, the first in the Nation fraud charges were announced against an individual fraudulently seeking a PPP loan. We have since initiated over 420 investigations, and together with our law enforcement partners, the Department of Justice has announced over 100 indictments against individuals committing fraud against the PPP and EIDL programs.

We have received over 150,000 complaints on our hotline since March of last year. This is over 150 years' worth of complaints when compared to prior years. We have sought and obtained assistance from the Pandemic Response Accountability Committee (PRAC), the catalogue complaints being received outside of our online complaint submission system, and we are employing data analytics to further triage these efforts.

I look forward to discussing our most recently published works surrounding implementation of PPP, EIDL, and SVOG. Thank you

for the opportunity to speak to you today. I am happy to answer any questions you may have of me.

Chairwoman VELÁZQUEZ. Thank you, Mr. Ware.

I will begin recognizing myself for 5 minutes.

Mr. Ware, the Biden administration has taken steps to restore program integrity, including implementing front end compliance checks on PPP loans. What other steps have been taken by the new administration to improve program integrity? Also, how effective will these steps be?

You are muted.

Mr. WARE. Yes. I had to figure out the mute button.

Thank you. Thank you for that question.

This administration has implemented quite a bit of front-end controls to include addressing our recommendations that have to do with IP address deconfliction, checking on those accounts that have at the last second changed the bank account information, and many of the other controls that we asked them to put in place, specifically with our December memo to the administrator.

Chairwoman VELÁZQUEZ. Thank you.

Mr. WARE. Yes.

Chairwoman VELÁZQUEZ. Mr. Shear and Mr. Ware, has the new administration been responsive to your requests? Has SBA, under the leadership of President Biden and Administrator Guzman increased the level of cooperation and transparency? Has the new administration been more forthcoming with information?

Mr. SHEAR. Yes. Definitely. As in my written statement and my oral statement, since the beginning of February, in terms of access to people, having in-depth discussions with SBA officials and their contractors, in terms of providing us data and information, providing us details about the oversight plans particularly for PPP, I am glad to report that it has become much better.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Ware?

Mr. WARE. I also agree. I did not have many of the problems that GAO encountered, but this administration has been very up-front, very transparent, very interested in implementing the recommendations, or at least taking steps to move in that direction, and very interested in hearing what the Office of Inspector General has to say.

Chairwoman VELÁZQUEZ. I would like to submit for the record a list of improvements to SBA programs that have been made by the Biden administration.

Without objection, so ordered.

Mr. Shear and Mr. Ware, were the loans mentioned in your report made during the last administration or since March 16th when the new administrator was sworn in?

Mr. Shear?

Mr. SHEAR. The loans that we are referring to are over a period that goes into the beginning of 2021. But for the most part it was loans over the period during the previous administration.

Chairwoman VELÁZQUEZ. Mr. Ware?

Mr. WARE. Pretty much the same. Like, we started from before the first loan even went out. So that work is still ongoing, but the

majority of our work informs what happened in the past in order to set up what is to happen in the future.

Chairwoman VELAZQUEZ. Thank you.

Mr. Ware, your office issued a management alert on April 7, 2021, the night before the launch of the Shuttered Venue program citing a number of concerns but you missed the main issue, the technical issues that throttled the system on the day of the launch. What happened on your end and why did you not flag these concerns earlier?

Mr. WARE. Thank you for that.

So, a management alert or advisory, the purpose of it is to present interim engagement results or share information as quickly as we can during a broad scope review. So we are assessing the program and we saw this at the onset of the program and thought let's stop and get this information in their hands right now while they still had time to improve the control environment. At that time we had not yet got to those controls.

Chairwoman VELAZQUEZ. Mr. Ware, is it not customary to alert Congress and the agency of such concerns in a timely manner?

Mr. WARE. It is. But the alert, right, is a part of a broader scope review. So in terms of alerting timely, this is what we alerted timely on. This is what we had known for certain at the time in the review. So the review on this program is still ongoing. These were the concerns that we thought we should raise immediately.

Chairwoman VELAZQUEZ. Thank you. My time has expired.

Now I recognize the Ranking Member, Mr. Luetkemeyer, for 5 minutes.

Mr. LUETKEMEYER. Thank you, Madam Chair.

I think we need to sort of set the stage a little bit here with regards to what we are talking about this morning from a standpoint that the PPP program was implemented in a very, very quick fashion. In a way that we knew we had our economy at risk. We had jobs at risk. Businesses at risk. And we knew that this was probably not the perfect way of going about dispensing those dollars and get them out in a hurry. And I think SBA did a great job of getting those dollars out the door and in the hands of folks who needed it.

I think the numbers have come back with some concerns about some of these loans. As a former regulator, I can tell you that whenever you are looking at a loan file and you see something that there is an I dotted or T not crossed in there you kick it out for what they call a technical exception. In discussing this issue with some of the IG and GAO folks, I think that is where we are with some of this stuff that is in these reports.

That being said, there has been some documented fraud in there as well, and I think that is the concern that I have is that we make sure we go back and recover those dollars. Make sure that there is an effort made to stop those folks from getting at those dollars and setting up the new programs, which are the EIDL program here with a recharge of money, as well as the restaurant program and the venue program, make sure those programs are set up so that this does not happen again. And this is my concern this morning from the standpoint that the EIDL program, and to quote Mr.

Ware, you called it rampant fraud in the EIDL program with regards to identity theft. This program was not that big compared to the amount of money that is going out with regards to identity theft.

Have you seen any kind of controls put in place by the SBA with regards to identity theft? Because I think the Shuttered Venue program was going to be operated very similar to, if I am not mistaken, the way that the EIDL program is. So have you seen them put anything in place that could be considered protection against that kind of activity? Mr. Ware?

Mr. WARE. Yes. Actually, I have. Yes. Actually, we have. SBA, and in particular, the Office of Disaster Assistance—since we are talking about EIDL, they have been at the table quickly implementing the upfront controls. At least they are stated; we have not tested them as yet. We trust that they are doing it but we always verify. The alert on Shuttered Venues, for example, never addressed the upfront controls for fraud. That we found that they had in place, at least what we had asked them to implement. What we were talking about was relative to measuring the program and having enough people to actually oversee the program on the backend so that we know that the program met its intended purpose.

Mr. LUETKEMEYER. Well, with regards to that, according to you two all's reports, there was not that much identity theft of a problem in the PPP program comparatively to the EIDL program. So it begs the question, the difference between the EIDL program and PPP program is that the banks basically were the ones that went through the program and got these dollars out the door. And they have a "know your customer" law in place to make sure that they know who the person is who is contacting them, the business that they are working with, and yet in the EIDL program, those sort of safeguards had not been in place. And maybe they are now, but it would seem to me and to beg the question, if SBA is going to stop that sort of fraud, they need to change the way that they do lending and let the lending be direct as it was in the PPP program or they become just a guarantor of the loan versus the actual lender of those dollars.

And so I guess my question to you is, are you satisfied that the controls in place are such that you would not want to see perhaps a third party actually get those dollars out the door so there is another level of safeguards in place, especially when the banks are there and used to I dotting and T crossing, collecting information, collecting forms and doing it in a very efficient manner? Would you consider that something that we need to be taking a look at?

Mr. WARE. My oversight is to the criteria based on the way that the programs are set up. In order for me to say that I would be satisfied with the controls, we would have to test the controls, which we have not done yet.

Mr. LUETKEMEYER. Okay.

Mr. WARE. We believe in what we have recommended to SBA and we believe that if properly implemented it would stem the tide of fraud in these programs.

Mr. LUETKEMEYER. Excuse me, Mr. Ware. I would like for Mr. Shear to get in on the question.

What would be your opinion on that?

Mr. SHEAR. I would agree with Mr. Ware that the mechanisms from the programs are different. With respect to PPP and the role of the banks, there is some information that comes out of it. We have suspicious activity reports that are used with that type of arrangement but banks also made suspicious activity reports on EIDL as well but they are of a different nature. So there is some control in place, "know your customer" type of controls that also affects who was able to get in and get the loans from the banks. So there are certain tradeoffs here in terms of who is being served. So there is a mechanism there through, as you say, through banks. But just like Mr. Ware said, we have not tested controls and we are looking for the details now on the oversight of the banks themselves and we are going through the information which is quite extensive that we have been getting to look at what the oversight of the banks is.

Mr. LUETKEMEYER. Okay. Thank you very much. I yield back.

Chairwoman VELAZQUEZ. The gentleman yields back.

Now we recognize the gentleman from Colorado, Mr. Crow, Chairman of the Committee on Innovation, Entrepreneurship and Workforce Development, for 5 minutes.

Mr. CROW. Thank you, Chairwoman. Thank you to the witnesses for coming here today.

Mr. Ware, I have a question regarding data and the integrity of data. Last year it was discovered that the Miter system that the database had significantly data disparities. So just as one example, the zip codes and the congressional data, the district data did not match up. And the SBA itself had found we were doing 500 PPP loans over the \$150,000 threshold, that 111 of those did not match the state code for the loan. So it was nearly a 22 percent disparity. We actually did our own analysis in our office and found significant loans that had been allocated to other districts that actually occurred within our district, hundreds of loans, in fact, and had our staff do that.

So did you all see that same disparity in your review? And have you been able to track any trends as to whether or not that data disparity is getting cleaned up?

Mr. WARE. Thank you very much.

Yes, we actually found the very same thing in terms of our data analytics unit. It kept reporting that some of the data is dirty. That is the term that they use. It is not good. But I know that they were able to work with SBA to rectify some of those challenges, which means that SBA is able to clean the data once they know that it is incorrect. So I know it is something that they are working on. They are working on making sure that they have clean data.

Mr. CROW. Can you give me some sense, I mean, I always kind of bristle at this notion, they are like, oh, we are working on it. And the problem for us is I am sitting here and we all represent districts. And I literally want to know what loans have been given in my district. Like, I want to know where those loans went, what the loan numbers are, and I just do not have trust right now that I understand that. That any one of us sitting here today can pull that data up and trust that data and actually understand what is going on in our own communities. So can you give me some sense

as to when we can have that trust and a date by which we can say this is the data, this is what is going on in our community?

Mr. WARE. So, as you know, that data belongs to SBA, not to SBA-OIG. So I know that question would be best posed to the program, which is SBA. I could tell you that when we look at the data—

Mr. CROW. No, Mr. Ware, you are the watchdog of SBA, right? So I am asking you as the watchdog, the person that is charged with internal oversight, what you think the timeline is for when they are going to clean this up.

Mr. WARE. Like I was saying, as I am not on the program side of things, I cannot give you a definitive date on which they would clean their data up. What I can tell you—

Mr. CROW. I am not asking for a definitive date, Mr. Ware. I am sorry, I am not asking for a definitive date. Can you give me an estimate as to the glide path that they are on to cleaning this up? Are we talking about a week? Are we talking about a year? Are we talking about somewhere in between? Can you give me any sense as to where they are at?

Mr. WARE. It is real difficult for me to give you a sense of where they are at in that. What I could tell you is this; what my office reviews, we clean to make sure that the data that we are putting out in our reports is indeed accurate.

Mr. CROW. Okay. I understand. That does not help us, unfortunately.

Mr. WARE. Right.

Mr. CROW. It does not help us. And you can tell I am frustrated because we do not even know what is going on or have trust in the data fully in our own communities because the data is dirty, as you say. And we need answers to when it is going to be clean.

So I think I made my point here. This needs to be fixed and we would expect you to push hard and we would like better answers from somebody as to when this is going to be fixed.

Madam Chair, I yield back.

Chairwoman VELAZQUEZ. The gentleman yields back.

The gentleman from Texas, Mr. Williams, Vice Ranking Member of the Committee is recognized for 5 minutes.

Mr. WILLIAMS. Thank you, Madam Chair.

On April 8, small business across the country were devastated to see the Shuttered Venue Operator Grant portal shut down within 2 hours of launching, and I was the Republican lead on the House side so I am very disturbed on what I see. These businesses have already suffered enough economic injury while waiting 4 months for this program to be open.

So Mr. Ware, you mentioned in your testimony that you have serious concerns about the SBA's control environment over SVOG program, Save Our Stages program. Can you elaborate on specific internal controls that need to be implemented within the SBA regarding waste and fraud within the SVOG program, and are you confident that the changes outlined in your initial report will be solved by the time the application portal reopens? We have businesses across the country that are closing every day because this was approved into law on December 8th and we are still not there yet. So what can we do to fix that?

Mr. WARE. Thank you for your question.

First off, the alert that we put out raised the attention of serious concerns with the control environment and the tracking of performance results. We need them to reduce or eliminate risk by implementing controls to address the misuse to Federal funds. In this case it was the way that they wanted to go about identifying the vulnerabilities commensurate with the expected volume of applications that they were going to get. We wanted them to clearly establish 2 CFR 200 criteria for the program to ensure compliance. It is important for me to point out that this is a grant program, not a lending program. Grant programs come with specific rules and regulations that need to be followed in order to determine the impact of program funds. We did not feel that they had sufficient resources available to implement or oversee the program from the onset. Relative to the fraud risk side of it, this did not address that because we found that they had implemented the recommendations that we had been given all along in terms of what checks should be in place to mitigate the risk of fraud.

Mr. WILLIAMS. Okay. I spoke with Administrator Guzman the other day after the OIG report, and it seems like they are claiming the report was released prematurely as a result of miscommunication and that many of the concerns had already been addressed. So even if that is true, it raises serious concerns about the agency's ability to carry out similar programs in the future if they cannot even get on the same page with their communications with the Office of Inspector General.

So Mr. Ware, what improvements need to be made to solve these communications issues so we can have confidence that all the programs being run out of the SBA are doing so with the proper levels of oversight? And again, I remind you, many, many people are waiting to get on these programs to save their businesses.

Mr. WARE. Right. This is a little surprising to me, kind of news to me, catches me a little bit off guard. Internally, before we release anything there are quite a bit of meetings that are taking place between our audit teams and the program staff. And even in those, not necessarily a communication issue. It was an understanding of what we mean by you have to establish criteria that is different because this is a grant program and not a lending program. And that we did not think that you could shut off certain requirements of CFR 200 that governs these programs. So that was the main thing.

But relative to communication, the administrator is new. We are building our relationship. Right now I think that is off to a much better start, especially after this was issued. We now have stated rules of engagement for how we go forward to make sure that they—

Mr. WILLIAMS. Okay.

Mr. WARE.—do not feel like there is a communication issue.

Mr. WILLIAMS. All right. Let me move on to another question.

I recently sent a letter to the Small Business Administration expressing concerns about the outstanding PPP loan forgiveness application past the 90-day deadline. The inaction and lack of communication coming out of the agency on these outstanding loans are keeping financial institution businesses in the dark. The result is

that hardworking Americans are stuck holding enormous liabilities. It prevents them from investing in business growth as we recover from COVID.

So Mr. Shear, quickly, what steps do we need to be taking with the SBA so we can clear this backlog of PPP loans waiting to be forgiven?

Mr. SHEAR. Part of it is consistent with putting in the right internal controls that pay attention to what are the elements that are slowing down the forgiveness decisions, such as when flags go up. I will call it flags of potential fraud. When flags go up, is there a disciplined approach of determining which flags are more important than others are? So I think that these are the types of things that we are looking for in that program.

Now that we have PPP forgiveness data, we are really analyzing it in depth to try to see how rampant these problems are. So I do not have an answer to your question yet as far as whether it is isolated or whether there is a large magnitude to this.

Mr. WILLIAMS. I yield my time back.

Chairwoman VELÁZQUEZ. The gentleman yields back.

The gentlelady from Kansas, Ms. Davids, Chairwoman of the Subcommittee on Economic Growth, Tax, and Capital Access is recognized for 5 minutes.

Ms. DAVIDS. Thank you, Chairwoman. And thank you to you and to the Ranking Member for holding this hearing today. And of course, to Mr. Shear and Mr. Ware for your critical oversight work.

As of earlier this month, the SBA had approved over 13 million loans totaling approximately \$964 billion through the Paycheck Protection Program and the EIDL Program. And these programs have been absolutely essential lifelines to small businesses across the country, and we know there is more to be done to support our small businesses until the end of this pandemic.

But part of that support definitely has to include the exact thing we have been talking about so much today, ensuring the integrity of the programs, of preventing further fraud and abuse from frankly wasting taxpayer dollars. And I know the Office of Inspector General and the GAO reports have highlighted persistent fraud in both the PPP and EIDL programs.

In the Kansas 3rd, which I represent, a local newspaper was able to share some information about 35 cases of relatively easy-to-identify fraud in just one of the counties in our district. And that was mostly fake farming enterprises in a largely suburban and residential area. And in addition to wasting taxpayer dollars, these cases are, of course, defrauding innocent people through identity theft and it is obviously urgent and critical that SBA is able to root out this type of fraud really quickly. I know I have urged, and I know others have, too, for the SBA to adopt the OIG recommendations that we have already seen so that the victims of identity theft are not held at fault.

Mr. Ware, I would love to ask you my first question. In your testimony, you mentioned the ongoing review of SBA's response to allegations of identity theft. And I know the Chairwoman kind of touched on this a little bit ago. But can you give us an assessment? I know you indicated that there is some new frontend controls, but



can you give us a sense of how the SBA is handling these types of cases?

Mr. WARE. In terms of identity theft?

Ms. DAVIDS. Yeah, identity theft, particularly as it relates to PPP and EIDL. Or the EIDL is the one that seems to have the most impact in the district that I represent based on the data we have.

Mr. WARE. Correct. Well, we have an ongoing review right now. As a matter of fact, that report, I think the response from SBA to this report is due today if I am not mistaken—I think it was the 20th—and will be issued shortly thereafter provided they do not ask for an extension being that the administrator is new. But in that, we are reporting publicly on what SBA has done to address what is happening with identity theft because, like you, we have heard countless stories and complaints involving identity theft.

And just so we are clear, SBA-OIG does not have principal jurisdiction on investigations involving identity theft. That belongs to the Federal Trade Commission. But we have a direct link on our hotline page in hopes of helping victims. We share those complaints with SBA so they can take appropriate actions, and we view this as a significant matter for SBA to address, one that is tied to internal controls within the programs. So it is something that we are taking very seriously and many of our active investigations have to do with this identity theft issue.

Ms. DAVIDS. Yeah. So that is helpful context. I am curious if you are able to give any kind of indication about, now that the EIDL loan repayments have been delayed by another year, some of those victims of identity theft are going to have other parts of their lives disrupted. Do you know if SBA, or have you made recommendations about how SBA might be able to reduce down or solve that issue so that people who have been the victim of identity theft through these EIDL loans are not negatively impacted in a bunch of other aspects of their lives?

Mr. WARE. Right. We have provided recommendations. The thing is, it is still in draft so it is not a completed work that I can speak about publicly.

Ms. DAVIDS. Okay.

Mr. WARE. Like in this setting.

Ms. DAVIDS. Yeah, so actually, so we will follow up with you based on your answers today. Thank you so much.

Chairwoman, I yield back.

Mr. WARE. Thank you.

Chairwoman VELÁZQUEZ. The gentlelady yields back.

The gentleman from Minnesota, Mr. Hagedorn, is recognized for 5 minutes.

Mr. HAGEDORN. Thank you, Chair. I appreciate this opportunity. And thanks to the witnesses.

Mr. Ware, I think you have been around government a little while and you kind of realize that this was quite an avalanche of lending that was going on by SBA through their partnerships with financial institutions and others. And quite something that the Congress and the president could get a bill enacted and then 7 days later they would actually have regulations on the books in

order to move the program along. Usually I think regulations like that would take 3 to 6 months, maybe even longer.

So I understand there are going to be some issues. We do not want any of that. But in looking at your testimony, it seems to be a big difference here between the Paycheck Protection Program and whatever monies might have gone out the door that were not supposed to be. And then compare that with the EIDL program. And you know, Congressman Luetkemeyer, our ranking Republican member was making the point that, boy, the EIDL program had substantially less money and yet there seems to be a lot of issues.

In your testimony you account for about \$75 billion that may have been inappropriately sent to ineligible businesses, but those numbers are from back in July of last year; right?

Mr. WARE. Yes. The numbers at that time were from back then.

Mr. HAGEDORN. So since then have you been able to update those or do we have some idea that this is way less than it was before or they have reclaimed some of those monies on all these other things?

Mr. WARE. That is a good question. We have been working diligently, of course, to claw back money that has gone to folks that it should not have gone to. I think we are up to a total between us and SBA, our partners, \$1.9 billion. We are continuing to move along those lines. We do have updated figures. I just do not have them at my fingertips right here.

Mr. HAGEDORN. All right.

Mr. WARE. It would take me a couple.

Mr. HAGEDORN. I mean, it looks here, this looks terrible but hopefully there is something that accounts for that and the problem is not this big. But it seems to me again that where you had lenders, financial institutions and others working with customers where they have to know their customers, there was not as big of an issue, as big of a problem. But then we get in to where the government is dealing with these folks directly there is all this identity theft and so forth.

So what was the most serious broad scheme that they had targeting these EIDL loans? What is your experience on that?

Mr. WARE. Before that there are two important things to point out here. When we were providing context as to what was going on in terms of fraud, the Office of Capital Access deals with PPP. They were very quick to implement controls that we thought were missing, very, very quick. And we know that is a big reason why there was a lot less that we found in that area. ODA took a much longer time to implement. That is a fact.

Secondly, in terms of identity theft, we are starting to see more of it raise its ugly head on the PPP side with the bringing on of the Schedule Cs. And so, I mean, we are still at the very beginning of this. We are starting to see the trends start to take shape. And so it might turn out to be a different story a little bit later. But you asked about the schemes; right?

Mr. HAGEDORN. Yeah. What is the role of the most prevalent scheme?

Mr. WARE. One of the most prevalent schemes, particularly for the EIDL Advance program was where people were being contacted by, I do not know, fraudsters who would say the government is giv-

ing out free money and all you have to do is have us sign up for you and SBA will give you a check for up to \$10,000 and it will be deposited into your account and you just have to pay us out a portion of it. And that is what we were seeing with the multiple IP address hits. It would be like one computer handling all this for maybe 200, 300, 400 different loans and just really bombarding base controls with that.

Mr. HAGEDORN. So people were literally just handing over their basic information to the fraudsters and then they were going ahead and making those applications and taking the money. Should the government have not figured out some way that all these things were coming from the same addresses? I mean, were there not any controls that were in place before this started out?

Mr. WARE. That argument that we were faced with was, well, multiple loans came from a single IP address doesn't mean it is fraud. And I would say maybe there might be a real reason for it but until you check you would not know.

Mr. HAGEDORN. You might want to look into that; right? Yeah. Check into it.

I do not know how much time I have. I am not seeing the computer. If I have just another minute—

Mr. PHILLIPS. Mr. Hagedorn, your time has expired.

Mr. HAGEDORN. Okay. I yield back then. Thank you.

Mr. PHILLIPS. All right. The gentleman yields back.

And now I recognize myself for 5 minutes.

I want to thank our witnesses for being here today, and I believe I speak for all of my colleagues on this Committee when I say we are deeply troubled by the reports of rampant fraud and abuse within the PPP and EIDL programs. Congress established these facilities to be a vital lifeline to American businesses in their darkest hour and now we are bringing some much needed sunlight as a disinfectant for corruption.

I am also troubled by the frenzied environment that gave birth to the programs with all their shortcomings, and I would hope today's hearing stands as a lesson to those of us in Congress to return to regular order, and those of us in the administration, to exercise the very highest standards of ethics in implementing and enforcing the law which ought to be amongst our highest priorities.

Mr. Ware, on February 2nd, the Biden administration published a fact sheet detailing new measures to prevent fraud in the PPP and EIDL programs. These measures provided that loan guarantee approval would now be contingent on passing SBA fraud checks, Treasury's Do Not Pay database, and public records. While implementing these checks at the late stage has somewhat slowed the processing of loan applications, these safeguards could have been implemented from the very beginning. In fact, on the day that lenders began processing applications for PPP loans last year, you issued a white paper outlining lessons learned from previous stimulus loan programs. In that document you warned that "increased loan volume, loan amounts, and expedited loan processing timeframes may make it more difficult for the SBA to identify red flags in loan applications." You urged the agency to put sufficient controls in place then. Did administrative officials at the agency heed your warnings at that time, sir?

Mr. WARE. At that time, no.

Mr. PHILLIPS. Okay. And when it became clear that the set up of EIDL, which is directly processed by SBA loan officers also made it particularly susceptible to abuse, you issued a July report containing another warning of "potentially rampant fraud" in that program as well. Is that correct?

Mr. WARE. This is correct.

Mr. PHILLIPS. And then last month, the Justice Department unveiled charges against a former Florida tax collector who allegedly bribed an SBA loan officer to "use her access to the SBA's computer systems and her access to EIDLs to manipulate the status of EIDLs to trigger the system to extend funding" for the benefit of the defendant.

Mr. Ware, this is not the first instance of questionable behavior by agency employees. So please elaborate, if you would, on why these activities did not trigger red flags in the loan system, and please speak to the OIG report that you issued in October of 2020 concerning SBA employees and contractors who were involved in inappropriately influencing loan approval.

Mr. WARE. Well, the control that you are speaking about was not in place to begin with and that was one of the controls that we were talking about, hey, you have to implement these controls. I mean, we were at the table on several instances speaking about this even before the reports were out saying this is a serious issue and there are certain things that need to be implemented. But as I was saying before, it was not I guess the best way to say it. It was not always taken as seriously. So there was always a justification trying to be made that there could be a valid reason for why we were seeing what we were seeing, although we had already made dozens of arrests up to that point using the same red flag indicators.

Mr. PHILLIPS. Okay. On the subject of taking things seriously, Mr. Ware, if you could just spend a moment and speak about your knowledge of the staffing challenges at SBA given the workforce needed to administer programs of this scale and any recommendations that you have to ensure that employees are thoroughly vetted moving forward.

Mr. WARE. Right. Well, relative to that, as you know, especially in the disaster area, SBA has the authority to very, very quickly ramp up and they did that. Our issue was where the ramping up was taking place. So we wanted them to put more people to address the red flags. More people to check why is there 200 loans from a single IP address. Why did all these loans have a changed bank account? We wanted them to assign folks there and they did. They actually, they did that and that was one of the things that they did rather quickly once they decided that they would review the red flag areas because many of them had to be cleared. So I believe they went from four people to 40 to 250. The numbers probably are not exact but I am pretty positive they are close in terms of how big they moved on that.

Relative to that, we have long recommended the importance of not only staffing up but properly training and vetting folks. There are multiple reports with that as a recommendation.

Mr. PHILLIPS. All right. Thank you, sir. Duly noted.

My time is expired. And now I recognize my fellow gentleman from Minnesota, Mr. Stauber, for 5 minutes.

Mr. STAUBER. Thank you very much, Mr. Chair. And to the witnesses, thanks for being here today.

Mr. Ware, a couple of questions. Of all the recommendations OIG has made in the various reports over this last year, how many recommendations has the SBA adopted?

Mr. WARE. That is a good question. I actually have it somewhere. I am trying to scroll quickly to find the exact number. But I do know that I could get you the number. But they have moved to implement recommendations.

We have closed, of the almost I think 24 of them, we have closed six. And are reviewing information necessary to close others. We do know that they have shown us documentation that several of the others, they have addressed them. And to be quite honest, they are moving expeditiously to implement the recommendations.

Mr. STAUBER. And Mr. Ware—

Mr. WARE. They are at least addressing them even if they have not had the time to fully put them in place.

Mr. STAUBER. Mr. Ware, what has the SBA signaled to you as their reason for not implementing more of the recommendations that you have just suggested?

Mr. WARE. SBA, we have resolved all but one recommendation with SBA. I know you are going to ask me which one that is. I do not know the exact one that is. Oh, the one that they did not resolve is one that they agree with but they have a different way that they would like to address the cause of that recommendation, which was fine with us. But we have resolved just about all of them. They are not saying that they are not going to implement them. Some just take a longer time than others. The more critical ones they have moved on.

Mr. STAUBER. Thank you, Mr. Ware.

And then one last question for Mr. Ware. How would you rate or describe the SBA's ability to prevent new fraudulent behavior in the existing pandemic response programs as it stands right now?

Mr. WARE. I would rate it much stronger than it was at the beginning. I believe that we have all, SBA included, learned a lot of lessons from where we were in the past months and that SBA is intent, at least on what they have presented to us, they are intent on making sure that the same errors do not happen again. It is our intent to measure it in terms of where we were before, what got through and where we were, where we are now in terms of what has been prevented.

Mr. STAUBER. And Mr. Ware, if you could, could you provide that information to the Committee?

Mr. WARE. Yes. Actually, I have it at my fingertips. I mean, it is right here. I have it.

Mr. STAUBER. Thank you very much.

Mr. Shear, a question for you is, in your opinion, what is the most important recommendation either the OIG or the GAO has made that has yet to be adopted to the SBA?

Mr. SHEAR. I will speak to the eight recommendations that we have made and they are all still open. And what I want to emphasize, because four of them deal with fraud risk management is that

where Mr. Ware has a very important role to play in terms of being part of law enforcement, our focus is on preventative controls. So what you put in place.

So we have four recommendations that were made in our March report that have to do with really developing a disciplined approach, creating clear responsibility and authority in a unit within SBA to carry out those four recommendations. They mirror each other, two for EIDL and two for PPP. So I would probably put those at the top. But then in terms of our role, again, and I will emphasize that we coordinate with the IG, and we do different things. And we are not conducting fraud investigations as a part of law enforcement, but just to back up to what we said originally with PPP, that you just needed an approach that would ensure the integrity of the programs that eligible businesses are participating in. That it is meeting, more broadly, it is meeting the intent of the programs. And so that is a more global approach. So I do not want to forget about what I call the more global recommendation we made, but the four in particular that we made, dealing with fraud risk management I think are probably at the top of the list.

Mr. STAUBER. Thank you, Mr. Shear. And I see my time has expired. Back to you, Mr. Chair. Thank you.

Mr. PHILLIPS. The gentleman yields back.

The gentlelady from Illinois, Ms. Newman, is recognized for 5 minutes.

Ms. NEWMAN. Thank you, Mr. Chair. And thank you to Chairwoman Velázquez and Ranking Member for this hearing. It has been very helpful.

So we have talked a lot about granular things today, Mr. Shear and Mr. Ware, and I really appreciate that. So let me start by saying that this program was huge and complicated to start out with for the SBA. Given that we had to move very quickly, it is not surprising that there were challenges in 2020. Throughout the year of 2020, many of these challenges were identified and not corrected frequently. So I am glad we are finally getting to a point.

And so I have the same question for both of you. I will start with Mr. Shear because it probably is more GAO than it is for Mr. Ware.

So it looks to me that while we have all these very significant and severe granular problems, there is a higher level management problem, that the structure of the SBA needs to change. It appears they come in four buckets. There is fraud and litigation issues. That there are categorization review analysis and assessment and data integrity issues. It sounds like there are workforce issues. So given that there are four very systematic issues and they are very large buckets with very granular problems in them it would appear that we need to look at the structure of the SBA from an organizational standpoint and really make some recommendations there so the move forward is working better.

So can you speak to that, Mr. Shear?

Mr. SHEAR. Thank you for the question.

What I think that it really focuses on, some of the reasons why we put SBA, these programs on our high-risk list. And so when we think of, one of the things I was encouraged by, basically starting with the transition team was how would we, meaning SBA, would

get ourselves off of the high-risk list? When we said we planned to put these programs on the list, the list came out March 2nd. And we look for certain elements there and it starts with leadership and it involves rigorous strategic planning and just a plan for how do you get from A to B with all of these things? And so it involves assessment. It involves commitment of resources. So for example, among the things we are looking at now is SBA did not have the resources for these programs and we are actually looking now at the use of the supplemental appropriations. We are talking about \$3.4 billion for administrative expenses and we are saying how were those funds used? So it was a lot of contractors. And then you start getting into issues of contractor oversight, and we are trying to get more information about what is SBA doing to oversee the contractors who are overseeing these programs? So there are some basic structural issues there that I think you raise a very good point.

The other issue I will point to is that SBA has had an office for a number of years called the Office of Continuous Operations and Risk Management. And when we first drafted our recommendations around fraud risk management, we directed it to having that office take the lead. Give it the responsibility and the authority to lead these efforts. And with that they said, well, now we also have a fraud risk council but both of them seem to be kind of—one had become kind of an informal body and the other one was an informal body that was just kind of put together. There is no clear responsibility to carry this out, and authority to carry it out. So this is also a structural type of issue.

So those are the parts of what we have done that I think pertain most closely to the very good question you asked.

Ms. NEWMAN. So let me follow that up, and I appreciate your answer. And it is complex; right? But what is the plan? If I was looking at this problem I would say that it looks like we need, if it was an organization, an executive VP of fraud and risk management. You know, that we need to look at workforce issue from an HR standpoint. Do we have the right folks that are assessing these things? And then from an information systems standpoint, do we need to have a CTO and CIO change? So for me, who is looking at that broader organizational structural problem? It may not be you, Mr. Shear, and that is okay. That is A-okay with me. But we need someone to look at it.

If Mr. Shear could just respond.

Mr. SHEAR. Thank you. We had concerns way before the pandemic, in 2015, that there were certain structural problems in just how SBA carries out its mission and we did what we call a general management review where we just looked from soup to nuts, looking across the agency. And we made a number of recommendations, and those recommendations were actually implemented. Part of it had to do with enterprise risk management and the risk management office that I just referred to. There are certain things that are in place that could have been teed up for this and probably still have to be teed up to implement our recommendations. So there are structural issues here and what we are looking for with respect to these two programs is what has to be done to really resolve fraud risk management for these programs, and some of these ac-

tions will probably end up leading to some structural change in the agency.

One of the things that I am very encouraged by, and I will just refer to one more thing if you can bear with me on this, is that last week I participated in a meeting between the Comptroller General, Gene Dodaro and Administrator Guzman and her chief of staff. And it was a very constructive meeting. It was like, we are seeing some positive signs that Administrator Guzman is stepping up, and certainly the transparency in working with us has improved. So we hope this leads to changes but it is like some of the changes as you bring up will probably be structural. Our focus is on what is really needed with respect to these programs? And some of them will probably require some structural change, if nothing else, to make it clear who is the authority on fraud risk management.

Mr. PHILLIPS. All right. The gentlelady's time has expired.

Ms. NEWMAN. Thank you.

Mr. PHILLIPS. We have to move on.

The gentleman from Pennsylvania, Mr. Meuser, is recognized for 5 minutes.

Mr. MEUSER. Thank you, Chairman. And thank you, Mr. Shear. Thank you, Mr. Ware for appearing with us here today.

So just to add to some perspectives, compared to the average of 65,000 disaster loans, EIDL loans a year as of April, the SBA has approved more than 3.77 million during the COVID time period, EIDL loans totaling more than \$200 billion. That is 60 times more than normal. The ratios are the same in Pennsylvania.

In testimony, it was referenced that the SBA lowered the guardrails, Mr. Ware, lowered the guardrails, relaxed internal controls to get funds to struggling businesses but that led to increases in potential fraud in EIDL. As well, Mr. Ware, your initial report found that the SBA issued \$14.3 billion in potentially fraudulent EIDLs to accounts that differed from the original bank account listed on the application, \$62.7 billion to multiple EIDL applicants using the same business and contact information, and \$1.1 billion in EIDLs and advanced grants to potentially ineligible businesses. That is \$78 billion out of \$200 billion, so almost 40 percent was potentially fraud? Is that right? That is pretty staggering. Are those numbers correct?

Mr. WARE. Yes. That is what we were saying.

Mr. MEUSER. Okay. Yeah, I know. But I just kind of wanted to put it in perspective. Forty percent. So in a private lending institution, if that were to occur, I think we would all agree that they would be out of business, many people would be fired, there would be investigations. So that is just staggering.

Does the SBA model itself for fraud controls after private lenders? Mr. Ware, can you comment on that?

Mr. WARE. Not—

Mr. MEUSER. No? Well, maybe you should.

Mr. WARE. That is a good question. Normally, a good question for the program office how exactly they model themselves because there are a couple of different ways of looking at it. But one of the things relative to context that must be placed here is that the 40 percent was in terms of potential fraud. Right? Meaning that we could not look at all of them in that time to determine whether or



not fraud was actually occurring. What we were asking SBA to do though was because these things are under these red flags, the same red flags that we are conducting our criminal investigations on, the same ones that we have arrested many people on, are the same ones. These are the indicators. These are what is showing up and that you need to pay attention to.

Mr. MEUSER. All right. Well, despite all of these numerous reports of fraud, the SBA in April raised the loan limit for the COVID-19 EIDL program from 6 months of economic injury with a maximum loan amount of \$150,000 up to 24 months of economic injury with a maximum loan of \$500,000.

Can either one of you comment as to why that would be done with all this potential fraud taking place?

Mr. WARE. If I may.

Mr. MEUSER. Sure.

Mr. WARE. From ODA's perspective it would be that they have instituted the controls that we have recommended. Meaning that they would feel we have not yet verified that the control environment is a lot stronger than it was at the beginning, so that they would be able to act on the flags and stop people from getting into the program who should not be in the program.

Mr. MEUSER. All right. Well, we certainly hope, you are not necessarily to blame but somebody is and we certainly hope that you will do the things that we are discussing here to correct this horrible problem.

I just want to shift gears here a little bit. Can you comment, can either of you comment on the issues EIDL loans have created for secured lenders? Secured lenders by the EIDL have been very much crowded out. Secured lenders are subordinate to the EIDL loans. The EIDL loans replace other credit lines so as secured lenders cannot use the EIDL for collateral. It has damaged the industry. And in the end, what is more important is that it will damage that small business over time. Just quickly, will this be addressed? Is this being considered by you all? And would you state to me whether or not you could meet with the secured finance network to try to address and resolve this problem?

Mr. WARE. Bill, should I go?

Mr. SHEAR. No, I will go first.

Mr. WARE. Okay.

Mr. SHEAR. We have focused a lot on the question of a secondary market with PPP, and so we have interacted with the financial community on that. It has not risen to being an issue with EIDL but we could look into the question that you have. We could look at that.

Mr. MEUSER. Could you meet with them?

Mr. SHEAR. We meet with trade associations, and what is important for us is to make sure that we are doing that in an objective way in terms of who we meet with but I would think so.

Mr. MEUSER. Of course. That is great. Thank you.

Mr. Chairman, thank you. I yield back.

Mr. PHILLIPS. Thank you. The gentleman's time is expired.

And I just ask members and our witnesses to try and be respectful of the 5 minute rule.

With that, the gentlelady from Georgia, Ms. Bourdeaux, is recognized for 5 minutes.

Ms. BOURDEAUX. Okay. Thank you so much. And I very much appreciate our two witnesses here.

Obviously, these are huge programs and have really been very important in shoring up our business community throughout the crisis, but at the same time it is very, very important to make sure that we are good stewards of taxpayer dollars. That this is being spent wisely and well.

A lot of questions have already been covered about how we make sure that we put the safeguards in place as we open some of these new programs up and try to make sure that we are cautious on that front and the money is going to the people who need it and into the right spots.

One issue, and I know we kind of touched on this in some of the other questions but just to ask Mr. Shear about this because I think Mr. Ware has touched on this, and it is about the targeting of the Restaurant Revitalization Fund. And we know that when we initially launched the Paycheck Protection Program it was not really getting to some of the underserved markets as best we could see, and based on the current guidance issued so far, are you confident that we will be able to resolve this issue and make sure that we get the Restaurant Revitalization Fund to some of the smaller minority-owned businesses across the country?

Mr. SHEAR. I will start out by saying that a lot of our focus on both PPP and EIDL is in terms of what are characteristics of the borrowers who are getting these loans? So this is something that has been a close focus of ours, and as we initiate work on the restaurant program, we will be looking at that as well. So it is important to see who the program is serving. It has to do with what is the intent of the program and looking at who is being served by the program. So we will be taking a close look at that.

Ms. BOURDEAUX. Okay. We have this 21-day prioritization period. What is your take on how effective that is going to be in making sure that we get to the right people?

Mr. SHEAR. We are auditing in real time and we are going to soon begin work on the Shuttered Venue and the restaurant program. So the idea is we are auditing in real time but we are going to be looking at who actually is being served by the program, so I think we will get some indication as far as how well it has worked in terms of serving its intended impact.

Ms. BOURDEAUX. Okay. All right. Well, just turning to one more other issue that we have really been watching or trying to see, although the data really is challenging as you all have noted. And I guess this is a question for Mr. Ware or Mr. Shear which is, we have a lot of businesses relying on the PPP loan forgiveness. And I was wondering if you all have discovered any reasons for concern with respect to access to loan forgiveness among small business owners? And what standards are in place to ensure that potentially fraudulent PPP loans are not given but while ensuring that the small mom and pop businesses can still access that loan forgiveness?

Mr. WARE. If I may, we are currently conducting an evaluation of the loan review process. And the objective of that was to assess

SBA's process for reviewing the loans for eligibility and forgiveness. It is in the early stages and it is designed to set the foundation for a series of projects on SBA's forgiveness of loans under the PPP eligibility. So it is in our 2021 oversight plan, and we will be able to give you real concrete answers on this as soon as that work is wrapped up.

Ms. BOURDEAUX. Okay, great. Thank you.

Mr. Shear, do you have anything to add to that?

Mr. SHEAR. We look very seriously at the recommendations having to do with thinking strategically about fraud risk management because it is not a matter of putting in controls that can slow down the process or can make it difficult for those who are eligible and are being served by the program to get forgiveness. But the idea of coming up with a strategic approach that says, what flags can we pay attention to, do we have to pay attention to, and which flags are of lesser concern? So it is really to come up with an approach that we are looking for.

Ms. BOURDEAUX. Okay. Thank you so much. And I yield back the balance of my time.

Mr. PHILLIPS. The gentlelady yields back.

And now the gentlelady from New York, Ms. Tenney, is recognized for 5 minutes.

Ms. TENNEY. Thank you, Mr. Chairman. I want to thank Chairwoman Velázquez and Ranking Member Luetkemeyer for holding this important meeting.

Our district was saved, basically, by the PPP program and we are really excited that it was an opportunity to keep some of our small business community alive. Ninety-four percent of the jobs in our district are created by these small businesses, so it was a vitally important issue, which is why I am so disheartened by this fraud, abuse, and waste number that has come up, particularly with the PPP program which really affected us more.

And I wanted to address my first question to Mr. Shear. I know that you had said in your testimony that SBA's failure to provide the data and documentation on PPP and also on the Economic Development Disaster Loan program in a timely manner impacted efforts to ensure the transparency and accountability of the programs which I guess has apparently happened.

What would you do, and I know you have somewhat answered this question, but if you could answer in another way, could you tell me what you would do to correct the way that SBA could change its practices to get that data to you more efficiently and quickly in the future so that we could make these loans and avoid these sort of astounding fraud numbers that we are seeing? And maybe a best practices guideline. Could you address that quickly, sir, please?

Mr. SHEAR. There are two parts to it. One was, when we refer to the lack of transparency and the uncooperative nature of the agency with us, it was getting to the very notion of just like not that they were inefficient in terms of getting us data and information; it was not providing us data and information. It was, I hate to say it but quite intentional.

So to get to the question is, how can they get information to us more quickly? We are always working with them to try to get infor-

mation more quickly and we are certainly doing it now in that there are a lot of outstanding items that we work through with them. We are very busy interacting with them, interacting with leadership at SBA and interacting with the Office of General Counsel in terms of trying to improve the process to get us the information that we seek. And there certainly have been improvements.

Ms. TENNEY. That is interesting that you say that you think they maybe intentionally did not give you the information. What reason would they be trying to hide the information from you or what would you attribute your opinion that they were intentionally trying to keep the information from you?

Mr. SHEAR. This is one where I do not want to really state an intent because the idea is it is getting into people's minds as far as why was SBA not being cooperative? It was not from lack of effort from our side, and certainly, there were efforts made, not just by my teams but also by our General Counsel, by the Comptroller General, by Members of Congress. So I really do not want to comment on what the mindset was that led to the lack of cooperation. But there certainly was a lack of cooperation and it did impede transparency.

Ms. TENNEY. Would you recommend that those people not continue to work in that regulatory agency and that we replace them? Because obviously this is obstructionist in some ways. Meeting the needs that the taxpayers are expecting with these programs.

Mr. SHEAR. It was clear that this involved officials at very senior levels. So with the changes that have occurred now you have certainly new people in the associated administrator type of positions and general counsel position. We have a new Administrator. So it is a different environment.

Ms. TENNEY. Do you think that any of that intentional, as you put it, do you think that has anything to do with the massive amount of fraud that we have discussed, like the 3.6 billion alone for the PPP program where potentially ineligible recipients receive that money? Is that something that you think there was some kind of underhanded behavior on their part?

Mr. SHEAR. I do not want to make the connection to saying that the reason we see so much potential fraud in this program and so much fraud risk is because of the behavior that reduced the level of transparency and our inability to really audit the programs in a rigorous manner. But what I will state to you is that under normal conditions, and I will say this with SBA in terms of their normal programs and things like that, I would like to think that the cooperation leads to improvement of the operations of the agency. And that was an opportunity that was delayed by the lack of cooperation with us. The ability to have us take a look at how they are doing things and to make recommendations for improvement and act on those recommendations. So I am making a more general point.

Mr. PHILLIPS. The gentlelady's time has expired.

Ms. TENNEY. Can you say that you have a similar issue with the Treasury with the Do Not Pay business center?

Mr. PHILLIPS. Ms. Tenney?

Ms. TENNEY. Am I out of time?

Mr. PHILLIPS. Yeah, your time is expired. I am sorry.

Ms. TENNEY. Okay. Thank you. Thank you.

Mr. PHILLIPS. Now, the gentlelady from California, Ms. Chu, is recognized for 5 minutes.

Ms. CHU. Thank you.

Mr. Ware, you provided such valuable testimony to the Oversight Subcommittee hearing that I chaired in October. After our hearing last fall, SBA strongly disagreed with the Office of Inspector General's findings on the level of fraud risk in the EIDL program and asserted that the agency had a robust system with internal controls. However, the third-party audit of SBA's 2020 finances found that despite this internal control system, SBA's loan officers were never formally trained to address flagged applications. So approvals on potentially fraudulent loans and rents continued.

Well, today we have a new administration at SBA that is disbursing the targeted EIDL funds that have been appropriated by the American Rescue Plan. So Mr. Ware, you were saying that now SBA has implemented internal controls. But I want to know what the highest priority steps are that SBA can take today to improve the security of the EIDL grant and loan program, considering that these grants are being made as we speak, right now?

Mr. WARE. Thank you. The highest priority as we would see it is actually some of the things that they said that they addressed. And we have some indication that they have. And that is reinstituting the rule of two where two people would review the loan, whereas they would stop the amount of batch processing that they would do. Those were big weaknesses in their system that allowed a lot of things to sneak through. Those are two of the biggest ones that come to mind quite quickly. They are doing the IP address checks. They are doing the bank account checks. I know that is a major part of it.

Ms. CHU. So is it just implementation of the controls that are there now?

Mr. WARE. Right. I believe that, well, the controls that were completely absent.

Ms. CHU. Yes.

Mr. WARE. Right. The implementation of those should actually help quite a bit.

Ms. CHU. Okay, thanks.

Mr. WARE. And I have got to tell you, it is a different environment in terms of cooperativeness and in terms of listening and in terms of sitting down to come up with what the best way is to address the fraud risk.

Ms. CHU. So it sounds like they have implemented the suggestions, every single one of the suggestions you have talked about?

Mr. WARE. Well, they have stated that they have. We have not yet tested them.

Ms. CHU. Oh.

Mr. WARE. Some we definitely can see that they have. Others, we certainly have not tested as yet.

Ms. CHU. Okay. Mr. Ware, also, there is another issue. It has been almost a year since you participated in an oversight forum to discuss the findings of your flash report following the program launch. And during that forum you told me that last year SBA issued no guidance to lenders describing how they should prioritize

underserved borrowers and have taken almost no steps to collect data on loan disbursements meaning that it would be nearly impossible to evaluate whether the program was reaching underserved businesses. And that is an important issue to me. Congress is great at set asides for community financial institutions in order to reach these underserved businesses—data collection reporting we could never know how effective the programs would be at reaching underserved markets or how we can improve the outreach.

So since under the last administration the agency failed to act on your recommendations, can you describe what specific steps the SBA can take now to backfill the demographic data on PPP recipients?

Mr. WARE. Well, although publicly they disagree, they actually did make some changes to the forms. They did some changes to way that they are going to be measuring. So that was done even under the last administration to make sure that they could capture going forward. But what happened in the past, basically, it happened. So there is no way to capture that initial part of it. But going forward that was something that they did move to correct.

Ms. CHU. And how about now in terms of the data collection?

Mr. WARE. In terms of data collection, well, if you just use the Restaurant Revitalization program as an example, you are doing it in the pilot to make sure that they get to the people they are supposed to get to up front and to be able to take a deep breath and assess the effectiveness. I think that is a major step forward. And we will be reviewing that pilot program.

Mr. PHILLIPS. The gentlelady's time has expired.

And now the gentlelady from California, Ms. Kim, is recognized for 5 minutes.

Ms. YOUNG KIM. Thank you, Chairman. I also want to thank the Committee for holding this important hearing to discuss the oversight of the SBA's COVID-19 programs.

We have heard a lot about the deficiencies that were found through the GAO and IG report and I think we all agree that PPP and the EIDL program have helped countless small businesses. It certainly did in my 39th District. However, in order to explore the PPP and the EIDL continues to provide assistance [inaudible] taxpayer money, SBA [inaudible] better job complying with GAO and Inspector General recommendations. The purpose of this hearing is to let them know that we are watching and they are on notice.

But SBA should also take note of the oversight deficiencies of the PPP program to ensure that other programs do not face the same problems.

So Mr. Ware, to your knowledge, does the SBA have the right oversight capabilities in place for the [inaudible] program and the Restaurant Revitalization Fund program?

Mr. WARE. What I can say is this: Based on what SBA has provided to our office, it is apparent, number one, that they are taking it very, very seriously. And number two, on the surface, that they have built in a control structure that would address all of our recommendations and that should, on the surface because we have not yet tested them, it should mitigate a lot of the fraud risk that we saw in the beginning.

Ms. YOUNG KIM. So when do you plan on doing a follow-up inspection?

Mr. WARE. Well, for example, on the Restaurant Revitalization program, we will be conducting a review of the implementation of the pilot, for example. At that time we will be able to talk more clearly and succinctly about what controls were in place, what the controls achieved, and whether or not they met the intent of the act.

Ms. YOUNG KIM. Mr. Ware, you mentioned the importance of data analytics. So how does data analytics help? Can you provide some examples?

Mr. WARE. Sure. Well, it has basically transformed the way we do business. When you have that many loans to review, when you have that many hotline complaints, when you have that many referrals from the agency to the tune of almost like 15,000 a week, the only way that you could focus your attention on what needs to be focused on is through the use of data analytics, through the use of trend analysis to see where the problems are located so that we can assign our investigative staff to pursue it. Or so that we can assign our audit staff to give a more global look in terms of what is going on in these programs. Where the fraud is so that we can move. It is the only thing that has not crippled us. We would have been crippled had it not been for data analytics.

Ms. YOUNG KIM. That is fine. I will yield the balance of my time. Thank you.

Chairwoman VELÁZQUEZ. The gentlelady yields back.

The gentleman from Pennsylvania, Mr. Evans, is recognized for 5 minutes.

You need to unmute.

Mr. EVANS. Thank you. Thank you, Madam Chair. Thank you also for this hearing.

I would like to ask a question, Madam Chair, to Mr. Shear and Mr. Ware. The question I would like to ask is, if you had to give the SBA a grade for handling of the programs during the pandemic, what grade would you give it and why?

Mr. WARE. Bill? I would like to see how you tackle that one.

Mr. SHEAR. Okay. I will give it a try.

It is a great question and it makes me think of my former days as a college professor. It is just like how do you grade students. And on this one, we were very accepting when SBA said, going back to last April, we had to get the loans out quickly, there was a pressing need to get the loans out quickly. And so at any rate, they got the loans out very quickly but then when you look at just the problems with administering the program and moving forward and putting the types of oversight in place that was so necessary and just the lack of cooperation with us rather than trying to use us as a tool to try to identify improvements that could be made in the program, it is a poor record. And so these are some of the things that are associated with why we have these programs on our high risk list.

Mr. WARE. The role of an Inspector General is to assist our agencies in being the best agencies that they can be in terms of efficiency and effectiveness. As we all know, SBA was charged with setting up a program in a matter of days. They got 14 years' worth

of lending out in 14 days basically. And we were along on the ride with them from the very beginning in terms of the three white papers that we put out and in terms of coming to the table and what needed to be set up from the very beginning. I do not know what grade I would give but I know had those been heeded it would be a much larger success story. I cannot give a letter grade.

Mr. EVANS. Is that the same deal with Mr. Ware? Can you give one to you or you would rather not to?

Mr. WARE. No, that was me.

Mr. EVANS. Mr. Shear. I mean, Mr. Shear.

Mr. WARE. Oh, yeah, yeah, sorry.

Mr. SHEAR. I would just say that personally, my focus is more on this long period of time where there was the lack of transparency, the lack of cooperation and where there was not a demonstration basically that, for example, with PPP, that the loan review process being in place, the lack of information there. So I am not going to give, you know, I do not want to give an exact letter grade but it would not be an A. So, but I really, I really do not want to give it a letter grade. It is not something that we are in the business of doing.

Mr. EVANS. Mr. Ware, is that what you are saying, too? You do not want to give it a grade neither?

Mr. WARE. Yes. I am saying that it is clear that SBA worked hard. And I am here. I know how hard these employees have worked. And they helped Americans in need. The only thing is in terms of our assurance, or anyone's assurance that the money went to only the eligible. So, no letter grade.

Mr. EVANS. I thank both of you. I yield back the balance of my time, Madam Chair. Thank you.

Chairwoman VELÁZQUEZ. The gentleman yields back.

The gentlelady from Texas, Ms. Van Duyne, is recognized for 5 minutes.

Ms. VAN DUYNE. Thank you very much, Madam Chair. And to the Ranking Member for holding this necessary hearing.

Each of today's testimonies have referenced that amidst billion of dollars of fraud and identity theft and its pandemic relief programs, that the SBA has failed to provide necessary data and documentation on the PPP and EIDL in a timely manner. I have got to tell you. I listened to a lot of blame game going on today and it is frustrating. We have people who are being blamed in leadership that are no longer here to defend themselves. I know that SBA was a \$17 billion agency that was expected to put out over a trillion dollars in a matter of months. I am not here to defend them but I think what we need to do, instead of playing the blame game on the last administration that I know elected officials were the ones who were pushing that to make sure that that money got out, for good reason. Governments shut down these businesses and made them insoluble in a number of cases and we needed to help them as soon as we could. But I am looking moving forward. What are the steps that we are going to take as we are coming out with more money to add to these programs, as we are coming out with more programs of the new administration. Moving forward, what are we doing to make sure that we will be in a position where this



fraud is not rampant, where we are having more controls given the fact that we have had a number of months now to get up to speed?

So with that, regarding the lack of data and documentation, my question to both of you is, what information is still outstanding and who can provide it? Are we expecting a time period that we are going to look and work with the new administration to say this is actually the numbers that we looked at? I am sure that data exists. How do we get to it?

Mr. Ware, go ahead and go first.

Mr. WARE. Should I go first? Okay.

My issue was a lot different from GAO's, my experience was. All right? I had access for the most part to the data that I wanted. And I had access to the leadership. I sat at the table with the leadership on numerous occasions. As a matter of fact, every week the administrator and I had a standing meeting every week where we would go over these things. So I did not have that same experience. And I do not have anything that is necessarily outstanding that would prevent us from providing the type of fast information that the agency can use to make sure that they are putting out these programs the way they are supposed to.

Ms. VAN DUYNE. Mr. Shear?

Mr. SHEAR. Our focus is on looking at how SBA is acting to implement our eight open recommendations. So that is a big focus of ours and a lot of that is that we are being provided information and we know that these recommendations are not something that it is just a matter of giving us information, that SBA will have to make some fundamental changes. And I think that they are showing a responsiveness to realize that certain changes have to be made in how these programs are operated.

As far as what we are doing is that our next step, we have had these bimonthly reports that are GAO-wide under the CARES Act, and we are going to quarterly reports. And then we are going to have three standalone reports this summer that will focus on for PPP one report looking at who has been served by the program and the lenders and borrowers that have been participating in the program. On PPP, what I have been talking about today has to do with internal controls and looking at the forgiveness process. So we are analyzing a lot of data. We are analyzing a lot of information. We are getting cooperation on that. We are still seeking a fair amount of information on the oversight structure for the EIDL program but we are going to be reporting on the EIDL program in a standalone report that is going to be both on who has been served by the program and looking at questions as far as how is the agency implementing our recommendations. And in doing that, now that we have a lot more information——

Ms. VAN DUYNE. Understand, I have got 5 minutes and I have got a ton more questions so if you could just make your answer a little bit more——

Mr. SHEAR. I will just say we are probably going to have more recommendations——

Ms. VAN DUYNE. Okay.

Mr. SHEAR.—now that we have more detailed information on what the agency is doing.

Ms. VAN DUYNE. Okay. So we are going to see a lot more reports coming out. But you have got two new programs that are going to come out now, the Shuttered Venue and the Restaurant Revitalization Fund, which are, again, new programs under the new administration, their own challenges. You have already noted that some of these have had horrendous launches. So do you believe that the SBA has put in place enough controls to limit the susceptibility to waste, fraud, and abuse for the new programs?

Chairwoman VELAZQUEZ. Time has expired but I will let him answer the question. Go ahead.

Mr. WARE. Okay. In response to the question, what we have been presented with to date demonstrates that they are very alert and attentive to the issues that were in place before and intent on making sure that it is not there. They have set up a control environment to address these issues.

Ms. VAN DUYNE. Okay. Well, I—

Mr. WARE. We have not tested it yet.

Ms. VAN DUYNE. Okay. I look forward to working with Chairman Phillips to hold a hearing in the near future on some of these issues with the OIG's office, GAO's office and SBA. I know that we have got the SBA administrator coming in at our next hearing but I really look forward on our Oversight, Investigations, and Regulations Subcommittee on pulling together a hearing. So thank you very much.

Chairwoman VELÁZQUEZ. The gentlelady's time has expired.

The gentlelady from Minnesota, Ms. Craig, is recognized for 5 minutes.

Ms. CRAIG. Thank you so much, Chairwoman, and thank you in particular for holding this hearing today.

Mr. Ware and Mr. Shear, thank you for being here, and for keeping this Committee updated and well-informed on the SBA's pandemic response. I know that this has been a significant challenge for the Small Business administration over the last just over a year now and we appreciate the work that the SBA and its employees have undergone to make sure that our small businesses, as many as possible, could survive this public health crisis.

It is clear from testimony today though that there have been some internal controls that are lacking, and action in the SBA has resulted in several issues that ultimately harm the people that we are trying to help, those small business owners. While the SBA should certainly work toward corrective actions based on its experience over the last year, we have an opportunity to proactively add more internal controls and address these issues as we stand up new programs such as the Shuttered Venue Operator's Grant and the Restaurant Revitalization Fund.

So Representative Van Duyne in her questioning here just a moment ago touched on this at the end but I know she was out of time and you did not get to really expand upon this, but our hardest hit small businesses have been waiting for this assistance for months and we must ensure these funds to get our small business owners the money and not spammers.

So Mr. Ware, you noted in your testimony serious concerns with the control and tracking of the Shuttered Venue Operators Grant program that requires immediate action and attention. Could you

please provide an update on that work that you are doing with the SBA to strengthen and launch this program? And more specifically, have there been similar conversations, and do you believe that the work you are doing for the Shuttered Venue program will suffice as you launch the Restaurant Revitalization Fund?

Mr. WARE. So maybe I will start backwards. So on the Restaurant program, like I said, it is very evident that they are intent on establishing a control structure that would ensure that fraud risk is mitigated in a major way. I believe they have done the same thing on the shuttered venue programs. Those programs, they have shown us the control structures for both of them that go a long way in addressing many, if not all of our concerns. The issue that I reported on with the Shuttered Venue had to do with what happens for the people that get in the right way. Is there proper guidance? Is there any way for you to monitor what those funds are actually going to be used for? Because it is a grant program. It is not a lending program. There are specific rules contained in the 2 CFR 200. And so that was the issue that we thought was critical, that they had to have the control structure on the inside to make sure that we are able to know what the program results were.

Ms. CRAIG. Fantastic. Well, I also serve on the Oversight Subcommittee, and we will look forward to continuing to receive your information and I look forward to Chairman Phillips continuing that dialogue.

And with that, Madam Chairwoman, I am going to yield back.

Chairwoman VELAZQUEZ. She yielded back. I am sorry. Thank you. The gentlelady yields back.

The gentlelady from Florida is recognized, Ms. Salazar, for 5 minutes.

Ms. SALAZAR. Thank you, Madam Chairman. And thank you very much, Mr. Ware, for your role as Inspector General which is vital to do a good job. And myself, as well as my constituents thank you for your hard work.

And I have a few questions which I know they are going to be a little bit uncomfortable but I wanted to just ask you if you the last year the SBA received \$3.6 billion in salary and administrative costs, the Inspector General office received \$70 million, and it received \$50 million extra for audits. But after all this money that I just explained and I just told you right now, still, \$82 billion between PPP and EIDL was not used properly. Eighty-two billion dollars. So where were you guys? Were you guys asleep? You had, I am going to repeat, \$3.6 billion in salaries and administrative costs, \$70 million for the Inspector General Office, and \$50 million for audits.

Mr. WARE. I am not sure if you realize, I am the Inspector General, so I did not get those funds that you are talking about. My budget is generally \$21 million and it is for audits, investigations, and things of that nature. We were far from asleep. We have been—

Ms. SALAZAR. Well, wait a minute. Were you not in charge? Were you not the—

Mr. WARE.—issues of this before the first loan went out the door.

Ms. SALAZAR. Let me just interrupt you in a minute. Were you not in charge of making sure that whatever monies the SBA was receiving was properly used?

Mr. WARE. I am the Inspector General. My job is to make sure that I point out instances of fraud, waste, and abuse. That is the role of an IG.

Ms. SALAZAR. Correct. So when \$82 billion were being——

Mr. WARE. Correct. And that is what we did——

Ms. SALAZAR.—dilapidated. Yes, tell me. So where were you?

Mr. WARE. We were the ones who reported on the money that is being misused. We are the ones conducting the criminal investigations to make sure criminals are brought to justice. That is our role. I think there is confusion between the role of the Inspector General and the role of the administrator.

Ms. SALAZAR. And I am sorry my ignorance. And it is true. Let's suppose that I am ignorant and I am very sorry, but then, what then can we do with your help in order to make sure that those people that did not use these monies properly are going to be held responsible?

Mr. WARE. That is my role. To date, we have over 460 criminal investigations going on. We have already recovered, along with SBA, over \$1.9 billion. This is what we do. And we have been the ones that have been recommending from the very beginning the proper control environment that needs to be in place up front so that I do not have as many criminal investigations to run on the back end.

Ms. SALAZAR. All right. So then you did your job and I commend you for that. So then who do we have to go to right now in order to ask that person these questions? Somebody has to be responsible and that is what I am trying to find out and you are the person that needs to tell us.

Mr. WARE. I believe at this point where we are currently, we are in an environment where the control environment is greatly shrinking. We are in an environment where we have partnered across the entire government to include FBI, Social Security Administration, Secret Service, FDIC, everyone, the PRAC working groups, all of us are looking into this at this time.

Ms. SALAZAR. All right. So then please keep advising us as to where we need to look at in order to make sure that we do not have another \$82 billion wasted.

Mr. WARE. Thank you.

Ms. SALAZAR. I yield back.

Chairwoman VELAZQUEZ. The gentlelady yields back.

With that we conclude our important oversight hearing. Let me thank our witnesses for joining us today.

Your oversight of SBA is a critical tool for Congress as we seek to limit instances of fraud, waste, and abuse in agency programs. PPP and EIDL have been vital lifelines for the millions of small businesses that have been devastated by the pandemic. However, it is clear that these programs' unprecedented size and scope, in addition to the speed in which the agency processed these loans have opened them up for fraud. The steps SBA has been taking to mitigate fraud are encouraging. However, your testimony today has made it clear that more work needs to be done. This Committee

must remain diligent and work to root out instances of fraud, waste, and abuse. To address the problems that we have heard about today, we must conduct this oversight in a fair, bipartisan manner.

I look forward to working with Committee Members to ensure that money goes to the small businesses that truly need it and that taxpayers' dollars are protected.

I will ask unanimous consent that Members have 5 legislative days to submit statements and supporting materials for the record.

Without objection, so ordered.

If there is no further business to come before the Committee, we are adjourned. Thank you.

[Whereupon, at 12:02 p.m., the Committee was adjourned.]

## APPENDIX



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United States Government Accountability Office

Testimony

Before the Committee on Small  
Business, House of Representatives

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For Release on Delivery  
Expected at 10:00 a.m. ET  
Tuesday, April 20, 2021

## COVID-19 LOANS

### SBA Has Begun to Take Steps to Improve Oversight and Fraud Risk Management

Statement of William B. Shear, Director, Financial  
Markets and Community Investment

**GAO@100**  
A Century of Non-Partisan Fact-Based Work

## GAO@100 Highlights

Highlights of GAO-21-498T, a testimony before the Committee on Small Business, House of Representatives

### Why GAO Did This Study

SBA has made or guaranteed about 18.7 million loans and grants through PPP and the EIDL program, providing about \$968 billion to help small businesses adversely affected by COVID-19. PPP provides potentially forgivable loans to small businesses, and EIDL provides low-interest loans of up to \$2 million for operating and other expenses, as well as advances (grants).

This testimony discusses the lack of controls in PPP and the EIDL program and SBA's efforts to improve its oversight of these programs. It is based largely on GAO's June 2020–March 2021 reports on the federal response, including by SBA, to the economic downturn caused by COVID-19 (GAO-20-625, GAO-20-701, GAO-21-191, GAO-21-265, GAO-21-387). For those reports, GAO reviewed SBA documentation and SBA Office of Inspector General (OIG) reports; analyzed SBA data; and interviewed officials from SBA, the SBA OIG, and the Department of the Treasury.

### What GAO Recommends

GAO has previously made eight recommendations to SBA to address internal control and fraud risk management deficiencies in PPP and the EIDL program. SBA neither agreed nor disagreed with three recommendations, and agreed with the five recommendations made in GAO's March 2021 report.

View GAO-21-498T. For more information, contact William B. Shear at (202) 512-8678 or [shearwb@gao.gov](mailto:shearwb@gao.gov).

April 20, 2021

## COVID-19 LOANS

### SBA Has Begun to Take Steps to Improve Oversight and Fraud Risk Management

#### What GAO Found

In April 2020, the Small Business Administration (SBA) quickly implemented the Paycheck Protection Program (PPP) and expedited the processing of Economic Injury Disaster Loans (EIDL) and a new EIDL advance program. These important programs have helped businesses survive during the COVID-19 pandemic. In an effort to move quickly on these programs, SBA initially put limited internal controls in place, leaving both susceptible to program integrity issues, improper payments, and fraud. Because of concerns about program integrity, GAO added PPP and the EIDL program onto its High-Risk List in March 2021.

SBA has begun to take steps to address these initial deficiencies:

- **PPP oversight.** Because ongoing oversight is crucial, GAO recommended in June 2020 that SBA develop plans to respond to PPP risks to ensure program integrity, achieve program effectiveness, and address potential fraud. Since then, SBA has developed a loan review process and added up-front verifications before it approves new loans.
- **Improper payments for PPP.** GAO recommended in November 2020 that SBA expeditiously estimate improper payments for PPP and report estimates and error rates. SBA has now developed a plan for the testing needed to estimate improper payments.
- **Analyzing EIDL data.** Based on evidence of widespread potential fraud for EIDL, GAO recommended in January 2021 that SBA conduct portfolio-level analysis to detect potentially ineligible applications. SBA has not announced plans to implement this recommendation.
- **EIDL oversight.** GAO recommended in March 2021 that SBA implement a comprehensive oversight plan for EIDL to ensure program integrity. SBA agreed to implement such a plan.
- **Assessment of fraud risks.** SBA has not conducted a formal fraud risk assessment for PPP or the EIDL program. GAO made four recommendations in March 2021, including that SBA conduct a formal assessment and develop a strategy to manage fraud risks for each program. SBA said it would work to complete fraud risk assessments for PPP and EIDL and continually monitor fraud risks.
- **Financial statement audit.** In December 2020, SBA's independent financial statement auditor issued a disclaimer of opinion on SBA's fiscal year 2020 consolidated financial statements because SBA could not provide adequate documentation to support a significant number of transactions and account balances related to PPP and EIDL.

GAO continues to review information SBA recently provided, including data on PPP loan forgiveness and details on the PPP and EIDL loan review processes. In addition, GAO has obtained additional information from a survey of PPP participating lenders, interviews with SBA's PPP contractors, and written responses to questions provided by SBA's EIDL contractor and subcontractors.

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Chairwoman Velázquez, Ranking Member Luetkemeyer, and Members of the Committee:

I am pleased to be here today to discuss our work on the Small Business Administration's (SBA) Paycheck Protection Program (PPP) and Economic Injury Disaster Loan (EIDL) program. As of April 4, 2021, SBA had made or guaranteed about 18.7 million loans and grants, providing about \$968 billion to help small businesses adversely affected by Coronavirus Disease 2019 (COVID-19).

As we reported in June 2020, lenders and SBA moved quickly to make and process PPP loans.<sup>1</sup> Given the immediate need for these loans, SBA worked to streamline PPP so that lenders could begin distributing funds as quickly as possible. SBA's initial interim final rule allowed lenders to rely on borrower certifications to determine the borrower's eligibility and use of loan proceeds, and it required only limited lender review of borrower documents to determine the qualifying loan amount and eligibility for loan forgiveness.<sup>2</sup> We also reported that as of June 2020, SBA had already approved more EIDLs than for all previous disasters combined, according to SBA officials.

While millions of small businesses have benefited from these programs, the speed with which the programs were implemented left SBA with limited safeguards to identify and respond to program risks, including susceptibility to improper payments and fraud. Since June 2020, we have reported on the potential for fraud in both PPP and EIDL and have made eight recommendations to SBA to improve the programs (four for PPP and four for EIDL). In addition, we included these programs as a new area on our High-Risk List in March 2021 because of their potential for fraud, significant program integrity risks, and need for much improved

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<sup>1</sup>GAO, *COVID-19: Opportunities to Improve Federal Response and Recovery Efforts*, GAO-20-625 (Washington, D.C.: June 25, 2020).

<sup>2</sup>See 85 Fed. Reg. 20,811 (Apr. 15, 2020). The interim final rule stated that lenders would be held harmless for borrowers' failure to comply with program criteria. Congress later codified a PPP lender hold harmless provision, providing that lenders may rely on any certification or documentation submitted by applicants that is submitted, and attests that it is submitted, pursuant to all applicable statutory requirements. Pub. L. No. 116-260, div. N, tit. III, § 305, 134 Stat. 1182, 1996-97 (2020). Congress made this provision retroactive, as if it was included in the original CARES Act.



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program management and better oversight.<sup>3</sup> We also cited the results of SBA's most recent financial statement audit, in which the auditor issued a disclaimer of opinion on SBA's financial statements because SBA was unable to provide adequate documentation to support a significant number of transactions and account balances related to PPP and EIDL.<sup>4</sup>

Further, as we reported multiple times, SBA's failure to provide us with data and documentation on PPP and EIDL in a timely manner impeded efforts to ensure transparency and accountability for the programs. This included delays in our obtaining key information from SBA, such as detailed oversight plans and documentation for estimating improper payments. However, I am glad to report that we have received a significant amount of information and data from SBA and its contractors over the past 2 months.

In this statement, I will discuss the lack of adequately documented controls in PPP and the EIDL program, as identified in prior work, and SBA's efforts to improve its oversight of these programs. I also will characterize the information we have recently received and how we plan to evaluate that information in our ongoing work. In preparing this statement, we relied primarily on our body of work issued from June 2020 through March 2021 that reviewed, among other things, SBA's implementation of these programs in response to the economic downturn caused by COVID-19.<sup>5</sup>

For those reports, we reviewed SBA documentation and analyzed program data, and we interviewed officials from SBA and the Department of the Treasury (Treasury). We also reviewed reports by SBA's Office of Inspector General (SBA OIG) and interviewed SBA OIG officials. In

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<sup>3</sup>GAO, *High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas*, GAO-21-119SP (Washington, D.C.: Mar. 2, 2021).

<sup>4</sup>Small Business Administration, Office of Performance Management and the Chief Financial Officer, *Agency Financial Report Fiscal Year 2020* (Washington, D.C.: Dec. 18, 2020), 39–63.

<sup>5</sup>See GAO-20-625; COVID-19: *Brief Update on Initial Federal Response to the Pandemic*, GAO-20-708 (Washington, D.C.: Aug. 31, 2020); COVID-19: *Federal Efforts Could Be Strengthened by Timely and Concerted Actions*, GAO-20-701 (Washington, D.C.: Sept. 21, 2020); COVID-19: *Urgent Actions Needed to Better Ensure an Effective Federal Response*, GAO-21-191 (Washington, D.C.: Nov. 30, 2020); COVID-19: *Critical Vaccine Distribution, Supply Chain, Program Integrity, and Other Challenges Require Focused Federal Attention*, GAO-21-265 (Washington, D.C.: Jan. 28, 2021); and COVID-19: *Sustained Federal Action is Crucial as Pandemic Enters Its Second Year*, GAO-21-387 (Washington, D.C.: Mar. 31, 2021).

addition, we interviewed officials from the Federal Bureau of Investigation (FBI). More detailed information on our scope and methodology can be found in our June 2020, September 2020, November 2020, January 2021, and March 2021 reports.

We conducted the work on which this statement is based in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Background

### CARES Act and Subsequent Appropriations

In response to the far-reaching public health and economic crises resulting from COVID-19, in March 2020, Congress passed, and the President signed into law, the CARES Act, which provides over \$2 trillion in emergency assistance and health care response for individuals, families, and businesses affected by COVID-19.<sup>6</sup>

Among other things, Congress established PPP in the CARES Act to help small businesses affected by COVID-19.<sup>7</sup> To date, Congress has provided commitment authority of about \$814 billion for PPP.<sup>8</sup>

Through the CARES Act, Congress also temporarily expanded eligibility for SBA's EIDL program and appropriated \$10 billion to create emergency EIDL advances, a new component of the EIDL program under the

<sup>6</sup>Pub. L. No. 116-136, 134 Stat. 281 (2020). As of April 2021, six other relief laws were also enacted in response to the COVID-19 pandemic: the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020, Pub. L. No. 116-123, 134 Stat. 146; the Families First Coronavirus Response Act, Pub. L. No. 118-127, 134 Stat. 178 (2020); the Paycheck Protection Program and Health Care Enhancement Act, Pub. L. No. 116-139, 134 Stat. 620 (2020); the Paycheck Protection Program Flexibility Act of 2020, Pub. L. No. 116-142, 134 Stat. 641; Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, 134 Stat. 1182; and American Rescue Plan Act of 2021, Pub. L. No. 117-2, 135 Stat. 4.

<sup>7</sup>PPP was authorized under SBA's 7(a) small business lending program.

<sup>8</sup>Pub. L. No. 116-136, §§ 1102(b)(1), 1107(a)(1), 134 Stat. at 293, 301; Pub. L. No. 116-139, § 101(a), 134 Stat. at 620; Pub. L. No. 117-2, § 5001(d) 135 Stat. at 85.

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## Internal Controls and Emergency Relief Funds

CARES Act.<sup>9</sup> Prior to the enactment of the CARES Act, SBA had begun awarding EIDLs to small businesses affected by COVID-19 using existing funds.<sup>10</sup> In total, Congress has appropriated \$50 billion in loan credit subsidies for the cost of EIDL loans and \$55 billion for advances to assist businesses affected by COVID-19.<sup>11</sup> The \$50 billion in loan credit subsidies would enable SBA to provide about \$470 billion in EIDL loans.

We have previously reported that strong internal controls increase the likelihood that an entity will achieve its objectives and help ensure that emergency relief funds are appropriately safeguarded.<sup>12</sup> While some level of risk may be acceptable in an emergency, an effective internal control system improves accountability and transparency, provides feedback on how effectively an entity is operating, and helps reduce risks affecting the achievement of the entity's objectives. A major component of internal control is identifying and responding to fraud risks. Recognizing fraud risks, and thoughtfully and deliberately managing them in an emergency

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<sup>9</sup>Pub. L. No. 116-136, §§ 1107(a)(6), 1110, 134 Stat. 281, 302, 306.

<sup>10</sup>The Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020, deemed COVID-19 a disaster under the Small Business Act, which made businesses experiencing economic injury caused by COVID-19 eligible for EIDLs. As a result, SBA began using existing \$1.1 billion in loan credit subsidy to provide EIDLs to these affected businesses. The \$1.1 billion in loan credit subsidy supported between \$7 and \$8 billion in EIDL loans. Loan credit subsidy covers the government's cost of extending or guaranteeing credit and takes into consideration the estimated cash flows to and from the government. The loan credit subsidy amount is estimated to be about one-seventh of the cost of each disaster loan.

<sup>11</sup>SBA provided advances using the \$10 billion Congress appropriated under the CARES Act. On April 16, 2020, SBA announced that the lending authority for EIDL loans and the funding for EIDL advances had been exhausted. Under the Paycheck Protection Program and Health Care Enhancement Act, Congress appropriated another \$10 billion for advances and \$50 billion in loan credit subsidy for EIDL loans. Additionally, Congress made agricultural enterprises eligible for EIDL loans and advances. SBA began accepting new applications from only agricultural enterprises on May 4, 2020. On June 15, 2020, SBA reopened the application portal to all eligible applicants. Congress appropriated an additional \$20 billion for targeted EIDL advances to eligible entities located in low-income communities with 300 or fewer employees that experienced an economic loss of greater than 30 percent in the Consolidated Appropriations Act, 2021. Qualifying entities may receive up to \$10,000 in targeted advances. The American Rescue Plan Act of 2021 appropriated an additional \$10 billion for the targeted EIDL advances; and \$5 billion for a newly created \$5,000 targeted EIDL advance program for business entities that qualified for the targeted EIDL advances but also meet smaller (employs less than 10 employees) and more economically harmed (economic loss greater than 50 percent) criteria than the original targeted EIDL advances. Pub. L. No. 117-2, § 5002, 135 Stat. 4, 85. The act also appropriated \$70 million for EIDL loans. Pub. L. No. 117-2, § 5006, 135 Stat. at 92.

<sup>12</sup>GAO-20-625.

environment, can help federal managers safeguard public resources while providing needed relief.

According to federal internal control standards and GAO's Fraud Risk Framework, managers in executive branch agencies are responsible for managing fraud risks and implementing practices for mitigating those risks.<sup>13</sup> When fraud risks can be identified and mitigated, fraud may be less likely to occur.<sup>14</sup>

### SBA Has Made Some Improvements in Response to Identified Weaknesses in PPP

**Program overview.** PPP loans, which are made by lenders but guaranteed 100 percent by SBA, are low interest (1 percent) and fully forgivable if certain conditions are met. Subsequent legislation has modified the program, including the Paycheck Protection Program Flexibility Act of 2020, the Consolidated Appropriations Act, 2021, and the American Rescue Plan Act of 2021.<sup>15</sup> As modified, at least 60 percent of the loan forgiveness amount must be for payroll or other eligible expenses to qualify for full loan forgiveness, and there is a simplified loan forgiveness application process for loans of \$150,000 or less.<sup>16</sup> PPP initially ended on August 8, 2020, but the Consolidated Appropriations

<sup>13</sup>GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: Sept. 10, 2014); and *A Framework for Managing Fraud Risks in Federal Programs*, GAO-15-593SP (Washington, D.C.: July 18, 2015).

<sup>14</sup>"Fraud" and "fraud risk" are distinct concepts. Fraud involves obtaining something of value through willful misrepresentation. Fraud risk exists when individuals have an opportunity to engage in fraudulent activity, have an incentive or are under pressure to commit fraud, or are able to rationalize committing fraud. A fraud risk can exist even if fraud has not yet been identified or occurred. When fraud risks can be identified and mitigated, fraud may be less likely to occur. Determining if an act is fraud is beyond management's professional responsibility for assessing risk (such determinations are made through judicial or adjudicative systems). See GAO, *Medicare and Medicaid: CMS Needs to Fully Align Its Antifraud Efforts with the Fraud Risk Framework*, GAO-18-88 (Washington, D.C.: Dec. 5, 2017).

<sup>15</sup>For example, the Consolidated Appropriations Act, 2021, expanded the list of allowable uses of proceeds and loan forgiveness to include certain operations, property damage, supplier, and worker protection expenditures. Pub. L. No. 116-260, div. N, tit. III, § 304, 134 Stat. at 1993-94 (2020).

<sup>16</sup>Under the Consolidated Appropriations Act, 2021, the loan forgiveness certification should not be more than one page in length and should only require borrowers to provide a description of the number of employees they were able to retain because of the loan, the estimated amount of the loan amount spent on payroll costs, and the total loan value. Borrowers must also attest that they complied with all PPP loan requirements. Borrowers must retain relevant employment records for 4 years following submission of the form and other relevant records for 3 years. SBA retains the right to review and audit these loans for fraud.

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Act, 2021, authorized additional loans under the program, including second PPP loans of up to \$2 million for PPP borrowers provided they meet certain criteria.<sup>17</sup> SBA relaunched the program (Round 2) on January 11, 2021, and small businesses can apply for a PPP loan through May 31, 2021.<sup>18</sup>

**Program usage.** According to SBA, as of April 4, 2021, lenders had made about 9.1 million PPP loans totaling about \$746 billion. The majority of these loans (5.3 million loans totaling more than \$521 billion, according to SBA) were made during Round 1 of PPP, which ended August 8, 2020.<sup>19</sup>

**Implementing oversight plans.** Given the immediate need for emergency funding, SBA implemented PPP quickly with limited safeguards for approving PPP loans.

In June 2020, we reported that SBA's initial interim final rule for PPP allows lenders to rely on borrowers' certifying their eligibility and the use of loan proceeds.<sup>20</sup> It also requires a limited review by the lender of documents provided by the borrower to determine the qualifying loan amount and eligibility for loan forgiveness.<sup>21</sup> We noted that reliance on borrower self-certifications can leave a program vulnerable to exploitation by those who wish to circumvent eligibility requirements or pursue criminal activities.

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<sup>17</sup>PPP borrowers are eligible to receive a second PPP loan of up to \$2 million provided that they meet certain criteria, such as having not more than 300 employees, having used or intending to use the full amount of their initial PPP loan, and documenting quarterly revenue losses of at least 25 percent in a quarter of 2020 when compared to the same quarter in 2019. Pub. L. No. 116-260, div. N, tit. III, § 311, 134 Stat. 1182, 2001 (2020); see also 86 Fed. Reg. 3712 (Jan. 14, 2021).

<sup>18</sup>The PPP Extension Act of 2021 extended the PPP covered period until June 30, 2021, but does not allow SBA to accept new applications starting June 1. Pub. L. No. 117-6, 135 Stat. 250.

<sup>19</sup>Totals exclude canceled loans. According to SBA, canceled loans may include, but are not limited to, duplicative loans, loans not closed for any reason, and loans that were fully paid off. In our September 2020 report, we provided information on the types of borrowers that received PPP loans and the size of PPP loans.

<sup>20</sup>GAO-20-625.

<sup>21</sup>As previously noted, Congress later included a hold harmless provision in the Consolidated Appropriations Act, 2021. Pub. L. No. 116-260, div. N, tit. III, § 305, 134 Stat. 1182, 1996-97 (2020).

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We also reported that because SBA had limited time to implement safeguards for the PPP loan approval process and assess program risks, ongoing oversight would be crucial. At that time, SBA had announced that it would review loans of more than \$2 million to confirm borrower eligibility after the borrower applied for loan forgiveness, and that it might review any PPP loan it deemed appropriate. However, SBA provided few details on these reviews at that time. Therefore, we recommended that SBA develop and implement plans to identify and respond to risks in PPP to ensure program integrity, achieve program effectiveness, and address potential fraud, including in loans of \$2 million or less. SBA neither agreed nor disagreed with our recommendation at that time.

In December 2020, SBA officials said the agency had completed oversight plans and provided a Loan Review Plan for the loan review process. The plan references detailed policies and procedures for loan reviews and loan forgiveness reviews. In February 2021, SBA provided seven of the eight documents referenced in the plan and stated that the last document covering reviews of loans of \$2 million or greater was still being finalized. The documents SBA provided include additional details on how SBA and its contractors will conduct the various reviews, including manual reviews conducted by contractor staff. We continue to review these documents to determine the extent to which they address our recommendation.

According to SBA documentation, there are three steps in the loan review process for loans approved in 2020: automated screenings of all loans, manual reviews of selected loans, and quality control reviews to ensure the quality, completeness, and consistency of the review process.

- *Automated reviews.* A contractor is to use a proprietary, automated tool to screen every disbursed PPP loan by applying eligibility and fraud detection rules to identify anomalies and attributes that may be indicative of noncompliance, fraud, or abuse.
- *Manual reviews.* A contractor is to manually review loans for issues identified through the automated tool and provide SBA with an analysis and recommendation for either (1) further action, if the loan contains indications of noncompliance, fraud, or abuse ("unresolved"), or (2) no further action, if the loan following review does not contain indications of noncompliance, fraud, or abuse ("resolved").

SBA is to manually review (1) all loans of \$2 million or greater, (2) all unresolved loans of less than \$2 million, and (3) a statistically valid

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sample of resolved loans of less than \$2 million where the contractor recommended no further action.

- *Quality control reviews.* A separate contractor is to conduct quality control reviews of a sample of loan review files after SBA has conducted its review and made its determination.

In addition, SBA has added up-front controls to PPP as part of its implementation of Round 2 of the program. In the initial round of PPP, SBA did not conduct reviews of loan or borrower information before issuing a loan number. However, before SBA approves a loan during Round 2, the loan must pass front-end compliance checks of loan and borrower information. These reviews compare loan applications against Treasury's Do Not Pay service and public records, according to SBA officials and documentation.<sup>22</sup> Among other things, these validation efforts include determining whether the loan applicant business was in operation as of February 15, 2020. According to SBA, these checks have added time to the initial processing of the loans. However, according to SBA officials, as of March 2021, SBA was approving more than 96 percent of the applications within 48 hours after submission.

**Estimating improper payments.** The limited safeguards for approving PPP loans may have increased SBA's susceptibility to improper payments and fraud. However, SBA has not estimated the magnitude of potential improper payments.

As we reported in November 2020, it is especially important for agencies with large appropriated amounts, like SBA, to quickly estimate their improper payments, identify root causes, and develop corrective actions when there are concerns about the possibility that improper payments, including those resulting from fraudulent activity, could be widespread.<sup>23</sup> Because SBA had not taken these measures for PPP, we recommended that SBA expeditiously estimate improper payments and report estimates and error rates for PPP because of concerns about the possibility that improper payments, including those resulting from fraudulent activity,

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<sup>22</sup>Treasury's Do Not Pay service is an analytics tool that helps federal agencies detect and prevent improper payments made to vendors, grantees, loan recipients, and beneficiaries. Agencies can check multiple data sources to make payment eligibility decisions.

<sup>23</sup>GAO-21-191.

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could be widespread. SBA neither agreed nor disagreed with our recommendation at that time.

In response to our recommendation, SBA stated that it was planning to conduct improper payment testing for PPP and that it took improper payments seriously. In February 2021, SBA officials stated that SBA had submitted the sampling plan for this testing to the Office of Management and Budget and would use this sampling plan to estimate both improper payments and error rates for PPP. We will continue to monitor the agency's actions to address this recommendation.

**Identifying and mitigating fraud risk.** In January 2021, we reported on potentially suspicious activity in PPP.<sup>24</sup> From April through October 2020, financial institutions filed more than 21,000 suspicious activity reports (SAR) related to PPP with the Financial Crimes Enforcement Network (FinCEN). These reports identified multiple types of potentially suspicious activity related to PPP, such as indicators of identity theft, the rapid movement of funds, and forgeries. Although the filing of a SAR does not necessarily mean that fraud has occurred, law enforcement agencies use these reports to help support investigations, such as those related to PPP fraud.<sup>25</sup> Over 1,400 institutions had filed SARs related to PPP from April through October 2020, and the number of SARs filed generally increased during this period.<sup>26</sup>

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<sup>24</sup>GAO-21-265. We analyzed aggregate SAR data across U.S. financial institutions from April through October 2020. These data did not include identifying information on financial institutions that filed SARs, such as PPP lender status.

<sup>25</sup>SARs are reports certain financial institutions are required to file if a transaction involves or aggregates at least a certain dollar amount in funds or other assets (generally \$5,000), and the institution knows, suspects, or has reason to suspect that the transaction is designed to evade any Bank Secrecy Act requirements or involves money laundering, tax evasion, or other criminal activities. See, e.g. 31 C.F.R. § 1020.320. Under the Bank Secrecy Act's implementing regulations, banks are also required to file a SAR when a transaction meets certain other criteria, such as for known or suspected criminal violations involving insider abuse of any amount. 12 C.F.R. §§ 21.11(c), 163.180(d)(3); 12 C.F.R. § 208.62(c); 12 C.F.R. § 353.3(a). Law enforcement agencies query FinCEN systems as part of their investigations of potential financial and other crimes.

<sup>26</sup>Banks and other financial institutions must file a SAR no later than 30 calendar days after the date of initial detection of facts that may constitute a basis for filing a SAR. If no suspect is identified on the date of detection of the incident requiring the filing, the financial institution may delay filing a SAR for an additional 30 calendar days to identify a suspect, but the report must be filed no more than 60 calendar days after the date of initial detection of a reportable transaction.



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DOJ and law enforcement agencies have reported ongoing efforts related to potential fraud in PPP. From May 2020 through February 2021, DOJ publicly announced charges in over 100 fraud-related cases associated with PPP loans, charging at least 170 defendants. The charges—filed in federal courts across the U.S. and investigated by a range of law enforcement agencies—include allegations of making false statements and engaging in identity theft, wire and bank fraud, and money laundering. As of February 2021, over 30 defendants had pleaded guilty to federal charges of defrauding PPP.

In addition to ongoing prosecutions, law enforcement officials we spoke with noted a large number of ongoing investigations and hotline complaints related to CARES Act loans, including PPP and the EIDL program. A senior official with SBA OIG told us that, as of January 2021, the OIG had opened over 260 investigations related to CARES Act loans, at least three times the number of investigations the office would typically open in a year. Similarly, SBA OIG reported receiving over 70,000 hotline complaints related to CARES Act programs, compared to the 700 to 800 it would receive in a typical year.

Law enforcement officials also reported systemic patterns of fraud across PPP and EIDL investigations. Officials at SBA OIG and the FBI told us that they have identified systemic patterns of potential fraud, including identity theft, false attestations on loan documents, fictitious and inflated employee counts, falsified tax documentation, and misuse of proceeds. Additionally, the FBI reported in June 2020 that early investigations of PPP-related fraud involved bank insiders, previously convicted felons, the use of dormant or cash businesses, and identity theft.

In March 2021, we found that SBA had taken some steps to mitigate fraud risks to PPP.<sup>27</sup> According to SBA officials, they conducted an informal fraud risk assessment for PPP that resulted in reviews and the addition of some upfront controls, as discussed above. For example, SBA brought together subject matter experts from SBA and Treasury, as well as contractors, to identify fraud risks and mitigating controls for the program. To identify fraud risks, SBA used information on vulnerabilities observed through existing loan reviews as well as information from external sources, such as SBA OIG reports. In February 2021, SBA officials told us the agency would complete a formal fraud risk

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<sup>27</sup>GAO-21-387.

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assessment but did not provide a firm date for when they would complete such an assessment.

Because SBA had not conducted a formal fraud risk assessment for PPP, we recommended in March 2021 that SBA (1) conduct and document a fraud risk assessment for PPP and (2) develop a strategy that outlines specific actions to monitor and manage fraud risks in PPP on a continuous basis. SBA agreed with the recommendations, stating that it would work to ensure that a fraud risk assessment for PPP is completed and that fraud risks are monitored on a continuous basis.

**Supporting PPP transactions and related controls.** In December 2020, SBA's independent financial statement auditor issued a disclaimer of opinion on SBA's fiscal year 2020 consolidated financial statements, meaning the auditor was unable to express an opinion due to insufficient evidence.<sup>28</sup> As the basis for the disclaimer, the auditor reported that SBA was unable to provide adequate documentation to support a significant number of transactions and account balances related to PPP due to inadequate processes and controls.

The auditor identified several material weaknesses in controls related to SBA's CARES Act programs, including PPP. In its discussion of material weaknesses related to PPP, the auditor noted there were over 2 million approved PPP loans (with an approximate total value of \$189 billion) flagged by management that were potentially not in conformance with the CARES Act and related legislation. SBA management flagged the loans for one or more of 35 reasons (such as borrowers with criminal record or inactive businesses). In addition, the auditor found that SBA reported approximately \$6 billion of PPP loans approved but not disbursed because of unsubmitted or unprocessed reports from lenders. In addition, the auditor noted there were over 896,000 errors from lender reporting that were identified but not reviewed or processed. The auditor recommended that SBA review loans with incomplete or inaccurate reporting and update records as appropriate, among other things.

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<sup>28</sup>A disclaimer of opinion indicates that sufficient information was not available for the auditors to determine whether the reported financial statements were fairly presented in accordance with Generally Accepted Accounting Principles. Small Business Administration, Office of Performance Management and the Chief Financial Officer, *Agency Financial Report Fiscal Year 2020*.

### SBA Has Begun Adding Controls to Detect Fraud and Determine Eligibility in the Economic Injury Disaster Loan Program

We support the recommendations the auditor provided to address control weaknesses related to PPP, and we encourage SBA to continue to work to improve its controls over the program, as well as to improve its documentation to support future financial statement audits. Our audit of the U.S. government's fiscal years 2020 and 2019 consolidated financial statements noted that SBA's internal control deficiencies significantly increase the risk of misstatements, noncompliance, fraud and other improper payments.<sup>29</sup> These deficiencies also contribute to the federal government's inability to reasonably estimate the value of receivables and liabilities associated with lending programs.

**Program overview.** The EIDL program provides low-interest loans of up to \$2 million for expenses—such as operating expenses—that cannot be met because of a disaster. The CARES Act expanded EIDL program eligibility to include additional small business entities and relaxed some approval requirements, such as demonstrating that the business could not obtain credit elsewhere.<sup>30</sup> Congress also appropriated \$10 billion through the CARES Act to provide small businesses up to \$10,000 in advances toward payroll, sick leave, and other business obligations, which borrowers do not have to repay, even if they are subsequently denied the EIDL. Through the Paycheck Protection Program and Health Care Enhancement Act, Congress appropriated \$50 billion in loan credit subsidies for the cost of EIDL loans and an additional \$10 billion for advances.<sup>31</sup>

On December 27, 2020, under the Consolidated Appropriations Act, 2021, Congress appropriated an additional \$20 billion for targeted EIDL advances. These targeted advances are restricted to certain eligible entities located in low-income communities that experienced an economic loss of greater than 30 percent and have no more than 300 employees. Qualifying entities may receive up to \$10,000 in targeted advances. Previously, SBA calculated the advances provided under the CARES Act based on the applicant's number of employees, up to \$10,000. On March

<sup>29</sup>GAO, *Financial Audit: FY 2020 and FY 2019 Consolidated Financial Statements of the U.S. Government*, GAO-21-340R (Washington, D.C.: Mar. 25, 2021).

<sup>30</sup>Prior to CARES Act changes, eligible businesses included small businesses, most private nonprofits of any size, small aquaculture enterprises, and small agricultural cooperatives.

<sup>31</sup>The American Rescue Plan Act of 2021 appropriated an additional \$70 million for EIDL loans.

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11, 2021, under the American Rescue Plan Act of 2021, Congress appropriated additional funding for entities that qualified for targeted EIDL advances under the Consolidated Appropriations Act, 2021.<sup>32</sup> Congress appropriated an additional \$10 billion for eligible entities that have not received the full amount of \$10,000 in targeted EIDL advances. Congress also appropriated \$5 billion to provide an additional \$5,000 for eligible entities in low-income communities that suffered economic loss of greater than 50 percent and employ not more than 10 employees. The \$5,000 is available in addition to advances obtained under the CARES Act or targeted advances under the Consolidated Appropriations Act, 2021.

**Program usage.** As of April 1, 2021, SBA had approved about 3.8 million EIDL loans totaling about \$202 billion (or an average of about \$53,500 per loan). On July 11, 2020, SBA announced that it had fully allocated the \$20 billion in funding for EIDL advances and would stop making advances to new applicants. Prior to then, SBA received about 10 million applications for EIDL advances related to COVID-19, and it approved about 5.8 million of these applications totaling \$20 billion (or an average of about \$3,500 per advance). SBA began implementing the targeted EIDL advances program on February 1, 2021.

**Detecting potentially ineligible and fraudulent applicants.** The CARES Act relaxed some approval requirements for EIDL, such as requiring the applicant to demonstrate that it could not obtain credit elsewhere and restricting SBA from obtaining tax transcripts. In January 2021, we reported that as of July 14, 2020, SBA had provided about 5,000 advances totaling about \$26 million to potentially ineligible businesses in three types of industries—adult entertainment, casino gambling, and marijuana retail.<sup>33</sup> Additionally, we reported that as of September 30, 2020, SBA approved at least 3,000 loans totaling about \$156 million to potentially ineligible businesses that SBA policies state were ineligible for the EIDL program, such as real estate developers and multilevel marketers.<sup>34</sup>

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<sup>32</sup>Pub. L. No. 117-2, §§ 5002, 5006, 135 Stat. 4, 85, 92.

<sup>33</sup>GAO-21-265.

<sup>34</sup>Multilevel marketing is a business structure or practice in which an individual seller earns income both from direct sales and from the sales of the seller's recruits, or those recruited by the seller's recruits.

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Therefore, we recommended in January 2021 that to improve SBA's oversight of its EIDL approval process, SBA should develop and implement portfolio-level data analytics across EIDL loans and advances made in response to COVID-19 as a means to detect potentially ineligible and fraudulent applications.<sup>35</sup>

SBA neither agreed nor disagreed with our recommendation. SBA took issue with our finding that potentially ineligible businesses received EIDL advances and loans. SBA stated that CARES Act provisions permitted businesses to self-certify their eligibility and that applicants could not proceed until they certified that they were not engaged in any of the prohibited activities. The agency also stated that a business being in one of the categories we deemed ineligible did not automatically mean the business was ineligible. However, we did not state that the businesses were automatically ineligible.

SBA also referred to actions the agency takes to ensure ineligible businesses do not receive EIDL loans, such as manual review of applications from businesses in prohibited categories. But SBA did not state it had any plans to conduct data analytics to identify potential ineligible businesses. We maintain that portfolio-level data analytics could help SBA improve its management of fraud risk.

SBA has begun adding additional verifications for the targeted EIDL advance program. As part of the Consolidated Appropriations Act, 2021, Congress requires SBA to perform eligibility verification for targeted advances, and it permitted SBA to require additional information from applicants, such as tax returns, for loans and advances as part of its verification. According to SBA officials, SBA has procured a contractor to map the primary business address to help ensure that the applicant meets program requirements. In addition, they have begun to obtain and review applicants' IRS tax information and check for matches against the Treasury Do Not Pay list. The CARES Act previously restricted SBA from

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<sup>35</sup>GAO's Fraud Risk Framework cites data analytics as a leading practice in developing specific control activities to prevent and detect fraud—in particular, to mitigate the likelihood and impact of fraud. Data analytics can be used to detect potential fraud and can include a variety of techniques, such as data mining, data matching, and predictive analytics, to identify particular types of behavior. Such efforts can be conducted across a portfolio of all loans or activities to identify patterns or anomalies.

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using this IRS tax information, including to verify eligibility for the EIDL advances.

**Identifying and mitigating fraud risk.** Similar to PPP, we reported on potentially suspicious activity in EIDL in January 2021.<sup>36</sup> Between May and October 2020, over 900 U.S. financial institutions filed more than 20,000 suspicious activity reports related to the EIDL program. These reports identified multiple types of potentially suspicious activity related to EIDL, such as indicators of identity theft, the rapid movement of funds, and forgeries.

In October 2020, SBA OIG reported that its preliminary review revealed strong indicators of widespread potential fraud in the EIDL program. According to the report, OIG and other law enforcement agencies had seized over \$450 million from over 15,000 fraudulent EIDL loans.

DOJ and law enforcement agencies report ongoing efforts related to potential fraud in the EIDL program. From May 2020 through February 2021, DOJ publicly announced charges in over 30 fraud-related cases associated with EIDL loans and charged over 50 defendants. The charges—filed in federal courts across the U.S. and investigated by a range of law enforcement agencies—include allegations of making false statements and engaging in identity theft, wire and bank fraud, and money laundering. As of February 2021, at least five defendants had pleaded guilty to federal charges of defrauding the EIDL program.

Law enforcement officials we spoke with also noted many ongoing investigations and hotline complaints related to CARES Act loans, including the EIDL program and PPP. Similar to PPP, they have also reported systemic patterns of fraud across EIDL investigations.

In March 2021, we found that SBA had taken some steps to mitigate fraud risks in the EIDL program.<sup>37</sup> SBA conducted an informal fraud risk assessment for EIDL that resulted in new and enhanced internal controls, according to SBA officials. For example, SBA began conducting eligibility checks through the Department of the Treasury's Do Not Pay service and plans to obtain 2019 tax information from IRS for the targeted advances. The agency also considered fraud risks facing EIDL, the sources and

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<sup>36</sup>GAO-21-265.

<sup>37</sup>GAO-21-387.

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likelihood of those risks, and residual risks.<sup>38</sup> Additionally, SBA officials told us SBA increased staffing for its OIG liaison team that reviews suspicious loans flagged by loan officers and forwards referrals to SBA OIG. According to SBA OIG, as of January 2021, it had received nearly 750,000 of these referrals related to identity theft and over 585,000 referrals related to other potentially fraudulent activities associated with the EIDL program.

Because SBA had not conducted a formal fraud risk assessment for EIDL, we recommended in March 2021 that SBA (1) conduct and document a fraud risk assessment for the EIDL program and (2) develop a strategy that outlines specific actions to address assessed fraud risks in the EIDL program on a continuous basis. SBA agreed with the recommendations, stating that it would work to ensure that a fraud risk assessment for EIDL is completed and that fraud risks are monitored on a continuous basis.

**Implementing oversight plans.** As discussed above, we and others have identified gaps in controls that may have led to fraud and the provision of EIDL funding to ineligible entities. However, we reported in March 2021 that SBA's Office of Disaster Assistance, which administers the EIDL program, had not proactively assessed risks to the program.<sup>39</sup> SBA officials told us that SBA does not have documented risk assessments and that SBA has identified problems primarily through loan officer review of loan applications.

The lack of a comprehensive plan to proactively assess controls and mitigate risks in the EIDL program may hinder SBA from achieving the defined objectives of the program and identifying opportunities for improving preventive controls in a timely manner. For example, SBA officials told us that 4 months after SBA started using the service organization's automated validation system to approve loan applications in batches, they realized that these applications contained alerts that should have been further reviewed by loan officers.

Because SBA did not have a plan for responding to EIDL risks, we recommended in March 2021 that SBA implement a comprehensive

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<sup>38</sup>According to federal internal control standards, inherent risk is the risk to an entity prior to considering management's response to the risk. Residual risk is the risk that remains after management's response to inherent risk.

<sup>39</sup>GAO-21-387.

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oversight plan to identify and respond to risks in the EIDL program to help ensure program integrity, achieve program effectiveness, and address potential fraud. SBA agreed with the recommendation, stating that it would implement a comprehensive oversight plan for EIDL.

**Ensuring adequate controls over EIDL approvals and contractors.**

SBA's independent financial statement auditor also found material weaknesses related to SBA's processing of EIDL loans and advances and contractor oversight, and these weaknesses contributed to the auditor's disclaimer of opinion on SBA's financial statements. To process EIDL loans and advances, SBA used a contractor system to first automatically validate applicants and then issue alerts, including fraud alerts, which SBA loan officers were to review and mitigate. The auditor determined that SBA did not adequately design and implement controls to ensure that loan officers accurately recorded and approved EIDL loan and advances for eligible borrowers. Further, SBA did not design and implement controls to ensure loan officers addressed fraud alerts before they approved applications. The auditor also determined that SBA did not adequately design and implement internal controls for evaluating and monitoring the contractor's controls for the validation system.

We support the recommendations the auditor provided to address control weaknesses related to EIDL, and we encourage SBA to continue to work to improve its controls over the program, as well as to improve its documentation to support future financial statement audits.

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Our work on PPP and EIDL is ongoing. As mentioned above, we recently received a significant amount of additional information and data from SBA and its contractors, which we are beginning to analyze. For PPP, we continue to examine the safeguards SBA implemented to help ensure that lenders and borrowers complied with program requirements and the loan forgiveness process. We have received additional information on PPP loan reviews, including information provided during interviews with contractors performing some of the reviews. SBA also recently provided loan-level information for those borrowers who have applied for forgiveness, which we are using to evaluate the forgiveness process. In addition, we have surveyed a generalizable sample of PPP lenders to obtain their perspectives on the program.

For EIDL, we have ongoing work to examine SBA actions to address internal control weaknesses and the integrity of the EIDL program. We recently received written answers from SBA's contractor and subcontractors for EIDL and are reviewing the information. In addition, we



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remain concerned about fraud risks in the EIDL program and have ongoing work related to fraud risk management.

For both programs, we also continue to monitor SBA's progress toward developing and implementing corrective actions to address the material weaknesses identified by its financial statement auditor.

Chairwoman Velázquez, Ranking Member Luetkemeyer, and Members of the Committee, this concludes my statement. I would be pleased to respond to any questions you may have.

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## GAO Contact and Staff Acknowledgments

If you or your staff have any questions about this testimony, please contact William B. Shear, Director, Financial Markets and Community Investment, at (202) 512-8678 or [shearw@gao.gov](mailto:shearw@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony are Paige Smith (Assistant Director), Marshall Hamlett (Assistant Director), Daniel Newman (Analyst in Charge), Marcia Carlsen, Irina Carnevale, Jacob Fender, Dan Flavin, Jessica Sandler, Shenandoah Sowash, Tyler Spunaugle, and Weifei Zheng.

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**HANNIBAL "MIKE" WARE  
INSPECTOR GENERAL  
U.S. SMALL BUSINESS ADMINISTRATION**

**BEFORE THE  
COMMITTEE ON SMALL BUSINESS  
U.S HOUSE OF REPRESENTATIVES**

**APRIL 20, 2021**

## INTRODUCTION

Chairwoman Velázquez, Ranking Member Luetkemeyer, and distinguished members of the Committee, thank you for inviting me to testify before you today and for your continued support of the Office of Inspector General (OIG). I am proud of the dedication and hard work of the men and women of OIG to not only prevent fraud in these programs, but also to detect, deter, and combat fraud.

OIG provides auditing, investigative, and other services to support and assist SBA in achieving its mission. As a result of its oversight efforts, each year OIG provides dozens of recommendations to SBA leadership aimed at improving the integrity, accountability, and performance of SBA and its programs for the benefit of the American people. Similarly, OIG's investigative efforts result in dozens of convictions and indictments as we aggressively pursue evidence of fraud in SBA's programs. In doing so, OIG provides taxpayers with a significant return on investment as it roots out fraud, waste, and abuse in SBA programs. During fiscal year (FY) 2019, OIG achieved \$111.0 million in monetary recoveries and savings—a fivefold return on investment to the taxpayers, and during FY 2020, OIG achieved \$142.5 million in monetary recoveries and savings—a sixfold return on investment to the taxpayer. The monetary recoveries and savings from our oversight of SBA's pandemic response efforts in FY 2021 are anticipated to be exponential to OIG's base operating costs.

## PANDEMIC RESPONSE OVERSIGHT

There is no higher priority for our office than providing oversight of SBA and the taxpayer's funds at stake through the Coronavirus Aid, Relief, and Economic Security (CARES) Act ensuing legislation and related pandemic response laws aimed at mitigating the pandemic. We have identified SBA's economic relief programs being susceptible to significant fraud risks and vulnerabilities as a top management challenge for SBA. We have been focused on preventing and deterring fraud, waste, and abuse from the outset of the pandemic response.

Our office was the first in government to issue reports related to the COVID-19 stimulus funding. We leveraged our past oversight of SBA's programs to publish three white paper reports. These reports provided SBA stakeholders with information on the risks and lessons learned from our prior audits and inspections related to economic stimulus loans (The American Recovery and Reinvestment Act of 2009 and The Small Business Jobs Act of 2010), to economic injury disaster loans (EIDL), and to entrepreneurial development programs. The reports were intended for policy makers to consider in managing and mitigating the risk of loss for the COVID-19 stimulus programs being implemented by SBA.

Prior to the first Paycheck Protection Program (PPP) loan being made by SBA, OIG published a list of fraud schemes and scams to alert the public and SBA stakeholders. This information was made available on OIG's website and distributed broadly through established communication channels to include social media. OIG also sought assistance from organizations involved with SBA lending to distribute the information and raise awareness. We also have integrated multi-media on our Hotline webpage to provide an alternative means of learning about our Hotline and its operations.

In the ensuing weeks of SBA's pandemic response, our criminal investigators partnered with other law enforcement organizations, conducted outreach to the Department of Justice and U.S. Attorney's Offices, and evaluated allegations of wrongdoing received through our Hotline. We also partnered with SBA's Office of the Chief Information Officer to investigate and remove websites suspected of being fraudulent. Hundreds of investigations involving complaints of fraud have been initiated by my office alone and many more are ongoing by our law enforcement partners, with noteworthy results being reported daily by the U.S. Department of Justice. Among these accomplishments was the first in the nation charges against individuals fraudulently seeking PPP loans, which was announced on May 5. This achievement was the result of the dedicated work of OIG criminal investigators and our law enforcement partners. OIG's investigative efforts have 162 indictments/information, 162 arrests, and 27 convictions related to EIDL or PPP.

SBA's tremendous role in the nation's pandemic response is without precedent. It is noteworthy that SBA executed over 14 years' worth of lending within 14 days, and as this Committee knows well, this was just the beginning. The speed and reduced controls surrounding this lending authority brought with it substantially increased risk. Our office published a robust oversight plan in April 2020 and immediately initiated its first reviews focusing on implementation and eligibility of PPP, EIDL, and the entrepreneurial development programs. Leveraging supplemental resources provided by Congress, we have announced an aggressive oversight plan for calendar year 2021.

Our PPP and EIDL reviews revealed alarming findings. We published a flash report on PPP in May, which resulted in legislative changes to the program, and we published a management alert on EIDL in July, sharing our finding of rampant fraud in the program. OIG has actively engaged SBA leadership throughout the duration of the pandemic to notify them of preliminary findings so they could respond in real time to prevent loss to the taxpayer. In particular, we sounded the alarm internally of rampant fraud in the EIDL program in June and alerted SBA leaders to concerns regarding loan recipients on the Department of Treasury's Do Not Pay List in August. As I am prepared to discuss with you today, we published comprehensive findings relative to our completed reviews focused on implementation of PPP, the EIDL program, and others.

Most recently, our office issued a Management Alert Serious Concerns About SBA's Control Environment and the Tracking of Performance Results in the Shuttered Venue Operators Grant (SVOG) Program to prior to the program launch. OIG would like proper controls in place prior to programs launching to ensure that the program meets its intended purpose and results.

### SIGNIFICANT OIG OVERSIGHT REPORTS

SBA has exercised over a trillion dollars in lending authority and entrepreneurial assistance in the wake of the pandemic. While PPP lending is anticipated to resolve within several years, the systemic weaknesses that were evidenced by the strain on SBA's programs and operations for its pandemic response will take many years to resolve, possibly decades, and will require robust OIG oversight. Additionally, SBA's Disaster Assistance Program lending for the pandemic response, principally through EIDL, is in the hundreds of billions—amounts that exceed all of SBA's disaster assistance lending since 1953—and will perform in SBA's portfolio for decades, which will require continuing oversight by OIG.

OIG has increased staffing in both its Auditing and Investigations Divisions with the supplemental funds appropriated to our office to increase our review and investigative capacity by approximately 40 percent. The supplemental funds are available until exhaustion, with some funding being directed for the purpose of EIDL oversight. These supplemental funds are critical for this initial oversight surge; however, hundreds of billions of dollars in loans will perform in SBA's portfolios for up to 30 years, and the varying statute of limitations for fraud associated with the economic stimulus lending and programs will allow for prosecutions for nearly a decade. Enhanced data analytics efforts have been key to our successes. To date, OIG's data analytics efforts have identified billions of dollars of potential fraud in SBA's lending programs involved in the pandemic response. Data analytics also has bolstered our investigative capacity with findings that have led to investigation and quick arrest of fraudsters across the nation.

Summaries of recently published oversight work are below.

#### **SBA's Initial Disaster Assistance Response to the Coronavirus Pandemic, Report Number 21-02**

This report presented the results of our inspection to assess SBA's initial disaster assistance response to the pandemic. SBA's Disaster Assistance Program is the federal government's primary program for providing disaster assistance. SBA provides EIDLs of up to \$2 million to eligible entities such as small businesses, nonprofits, farms, etc.

The CARES Act deemed COVID-19 a disaster. The Act authorized SBA to provide EIDLs to eligible entities under the Small Business Act in geographic locations declared disaster areas. In addition, the CARES provided \$10 billion for a new vehicle—emergency advance grants. The Paycheck Protection Program and Healthcare Enhancement Act provided another \$10 billion for the emergency advance grants and \$50 billion in loan credit subsidy to support approximately \$366 billion in additional disaster loans.

To meet our objective, we reviewed key provisions of the laws as well as SBA's policies and procedures, and information on both SBA's website and the loan application. Additionally, we analyzed loan data to determine if loans were provided to ineligible businesses and identify suspicious loan activity. Finally, we interviewed SBA and subcontractor personnel. As of July 31, 2020, SBA had received over 14 million COVID-19 EIDL applications, of which it approved 3.2 million for a total of \$169.3 billion. Additionally, SBA had disbursed 5.8 million emergency advance grants for \$20 billion.

#### *What OIG Found*

SBA's initial response to implement the COVID-19 EIDL program made billions of dollars of capital available to provide prompt economic relief to businesses affected by COVID-19. To expedite the process, SBA "lowered the guardrails" or relaxed internal controls, which significantly increased the risk of program fraud. The unprecedented demand for COVID-19 EIDLs and the equally unprecedented challenges SBA had in responding to this pandemic combined with lowered controls resulted in billions of dollars in potentially fraudulent loans and loans to potentially ineligible businesses. Based on our analysis of SBA's COVID-19 EIDL data, as of July 31, 2020, we found SBA approved \$14.3 billion (\$13.4 billion disbursed) in COVID-19 EIDLs to accounts that differed from the original bank accounts listed on the loan applications: \$62.7 billion (\$58.0 billion disbursed) in multiple (between 2 and 245) COVID-19 EIDLs to applicants using the same IP addresses, email addresses, bank accounts, or businesses listed at the same addresses; and approximately \$1.1 billion in COVID-19 EIDLs and emergency advance grants to potentially ineligible businesses.

#### *OIG Recommendations*

We made 10 recommendations for SBA to strengthen its controls to lower fraud risk and recover funds from ineligible businesses as it continues to respond to the ongoing pandemic.

#### *Agency Response*



SBA Management disagreed with the audit findings we report here. Management only partially agreed with recommendations 1 through 8 and 10. Management disagreed with recommendation 9. Overall management stated it disagreed with the findings because there was insufficient evidence that loans were approved and disbursed to ineligible businesses. It is important to note that despite management disagreeing with the findings and only partially agreeing with 9 of the recommendations, in most cases, the agency is taking corrective actions to fully implement our recommendations.

#### *Status of Recommendations*

The 10 recommendations remain open.

#### **Inspection of SBA's Implementation of the PPP, Report Number 21-07**

Section 1102 of the CARES Act provided \$349 billion for the creation of the PPP under Section 7(a) of the Small Business Act.

This program provides fully guaranteed SBA loans for certain eligible small businesses, individuals and nonprofit organizations that can be forgiven if loan proceeds were used as required by the law. Eligible expenses include payroll, rent, utility payments, and other limited uses.

Our objective for this inspection was to assess SBA's implementation of the PPP, including the timing of implementation, lender participation, guidance provided to lenders and staff, timeliness of loan approval and disbursement, and systems used to process lender loan approvals.

#### *What OIG Found*

SBA's initial response to implement the PPP quickly made billions of dollars of capital available to millions of borrowers affected by the COVID-19 pandemic. SBA quickly released loan origination program guidance for the majority of the program's aspects and approved approximately 3,800 financial institutions for participation in the program. However, SBA's efforts to hurry capital to businesses were at the expense of controls that could have reduced the likelihood of ineligible or fraudulent business obtaining a PPP loan. As a result, there is limited assurance that loans went to only eligible recipients.

Additionally, we found aspects of SBA's implementation of the PPP could prevent Congress and SBA management from having the information needed to determine if program objectives were fully met. We found SBA's PPP publicly reported and loan-level data was inaccurate and incomplete, and SBA guidance was not sufficient to

ensure PPP lenders prioritized underserved markets during the initial round of funding.

Finally, while we determined some aspects of SBA's initial implementation of the PPP were not executed efficiently, SBA later made several corrections so the program would operate more effectively.

#### *OIG Recommendations*

We made six recommendations to improve SBA's program and reduce the risk of financial loss from PPP loans being made to ineligible or fraudulent borrowers and improve SBA's ability to obtain information necessary for critical program decisions.

#### *Agency Response*

SBA fully agreed with five of the six recommendations. Specifically, the agency agreed with recommendations 1, 2, 4, 5, and 6. Management disagreed with recommendation 3 but provided an alternative solution that satisfied the intent of the recommendation.

To address all recommendations, management plans to review the loans identified in the report as potentially ineligible and implement or strengthen internal controls to ensure loans were not made to ineligible or potentially fraudulent borrowers. Additionally, management plans to update PPP program forms to

- reduce the risk of financial loss from potentially ineligible loans,
- ensure accurate and complete program reporting, and
- ensure sufficient information is gathered to assess program objectives.

#### *Status of Recommendations*

The three recommendations remain open.

#### **PPP Loan Recipients on the Department of Treasury's Do Not Pay List, Report Number 21-06**

OIG issued a Management Alert to bring to SBA's attention to serious concerns about improper payments to lenders for potentially ineligible recipients of loans under PPP in response to the pandemic. The issue required immediate attention and action.

Due to complaints of fraud received by the OIG, we collaborated with the U.S. Department of the Treasury (Treasury) Do Not Pay (DNP) Business Center, which identified high-risk transactions related to financial assistance to small businesses

for the COVID-19 pandemic. Our review of Treasury's analysis showed approximately \$3.6 billion in PPP loans to potentially ineligible recipients.

Expedited management action could reduce or prevent the potential for loss in terms of the risk of improper payments to lenders for amounts ineligible for forgiveness as well as any fees. OIG communicated summary results to SBA management, who requested Treasury's results and have systemically put a "hold" flag on loans identified by the DNP team to ensure the loan applications are properly reviewed before processing for forgiveness or any further disbursements. Additionally, SBA management contacted the DNP Business Center and discussed the matching parameters to ensure that DNP's results were consistent with PPP eligibility provisions.

Treasury's analysis of potentially ineligible recipients demonstrates the importance of front-end controls and careful review by SBA of the loans identified. Our preliminary review of Treasury's analytical summaries indicates SBA should reassess controls to ensure only eligible recipients obtained PPP loans and prevent improper payments, as required by the law. To prevent improper payments, SBA will need to implement strong controls to ensure that loans to ineligible recipients are not forgiven and any undisbursed funds are not released to borrowers.

#### *OIG Recommendations*

To establish more effective oversight controls related to the PPP for COVID-19 pandemic relief, we recommended that the Administrator direct the Associate Administrator for the Office of Capital Access (OCA) to:

- 1) Promptly identify PPP loans that have not been fully disbursed and follow-up with the lenders to stop \$280 million in potential improper loan disbursements.
- 2) Strengthen SBA controls to ensure that loans to ineligible recipients are not forgiven.
- 3) Review prepayment and pre-award procedures and work with Treasury to formulate a technical approach to use Treasury's DNP portal to determine loan applicant eligibility and prevent improper payments before the release of any federal funds.

#### *Agency Response*

SBA leadership provided formal comments to this Management Alert that indicated "Prior to the Management Alert, SBA developed systems to screen potential borrowers against the Treasury Department's Do Not Pay List. These efforts were underway as a part of the loan review process before OIG issued the Management Alert."

However, management's assertion that "SBA developed systems to screen potential borrowers against the Treasury Department's Do Not Pay List" before our alert does not match OIG's or Treasury's understanding of the timeline of events. Management's comments indicated preventative controls were already in place. But our understanding from Treasury at the time of publishing was that portal access to DNP was in the process of being established for two users, and batch processing capability for high-volume activity was still under development. Batch processing to the DNP portal is critical for SBA to implement OIG recommendations without slowing PPP loan processing.

#### *Status of Recommendations*

Recommendation Number 3 was closed on February 16, 2021 for final action. This recommendation requested OCA to design technical procedures and establish controls over the prepayment and pre-award procedures and work with Treasury to formulate a technical approach to use Treasury's DNP portal to determine loan applicant eligibility and prevent improper payments before the release of any federal funds. OCA has implemented controls including interfacing with DNP data bases, developing procedures, and documenting with process flows. Therefore, this recommendation is closed for final action.

The other two recommendations remain open.

#### **Flash Report Duplicate Loans Made Under PPP, Report Number 21-09**

This analysis was initiated in response to a Select Subcommittee on the Coronavirus Crisis request to review duplicate loans made under the PPP related to a vulnerability in SBA's loan processing system.

To conduct our analysis, we reviewed PPP regulations and the Paycheck Protection Program and Health Care Enhancement Act, in addition to guidance published in SBA's PPP Interim Final Rules and PPP Frequently Asked Questions. We also analyzed PPP loan data to identify whether lenders disbursed more than one PPP loan to the same borrower. Our objective was to determine whether SBA had sufficient controls to detect and prevent duplicate loans and address vulnerabilities under the PPP.

#### *What We Found*

We determined SBA did not always have sufficient controls in place to detect and prevent duplicate PPP loans. As a result, lenders made more than one PPP loan disbursement to 4,260 borrowers with the same tax identification number and borrowers with the same business name and address. These disbursements totaled about \$692 million for PPP loans approved from April 3 through August 9, 2020.

In May 2020, SBA identified issues in which the method for processing PPP loans did not detect all duplicate loan applications which led to duplicate loan numbers. According to SBA, the reasons for this were 1) a computer script used to detect duplicates stopped working, 2) lenders submitted PPP applications using employer identification number or social security number interchangeably, and 3) borrowers applied for PPP loans with more than one lender.

Throughout the PPP, SBA continued to identify additional factors that led to duplicate loan numbers. SBA then worked with lenders and implemented controls to address these issues. However, SBA stated it turned off controls for its electronic loan application system which also led to duplicate loan numbers. SBA also stated it would rely on loan reviews to identify and resolve duplicate disbursements. Although SBA continuously implemented controls, there were still duplicate loans approved through the close of the PPP in August 2020.

#### *OIG Recommendations*

We recommended in part that SBA 1) review identified potential duplicate disbursements for eligibility and take action to recover any improper payments, 2) review controls related to all PPP loan reviews to ensure that duplicate loans are not forgiven and not subject to an SBA guaranty, as appropriate, 3) strengthen E-Tran controls for future PPP-type programs to ensure the controls align with program requirements and are active at all times, and 4) strengthen controls and guidance for lenders to ensure lenders meet program requirements for future PPP type programs.

#### *Agency Response*

SBA agreed with the report finding and all recommendations. Management plans to review and resolve duplicate loans by recovering improper payments and preventing loan forgiveness on ineligible loans. Management also plans to enhance controls to ensure they align with program requirements and are functioning at all times.

#### *Status of Recommendations*

The four recommendations remain open.

#### **Evaluation of SBA's Award Procedures for the CARES Act Entrepreneurial Development Cooperative Agreements 21-11**

This report found that SBA awarded the CARES Act entrepreneurial development cooperative agreements and grants in accordance with applicable federal laws,

regulations, and guidance. We found program officials established performance goals and identified performance indicators. To more effectively ensure performance goals are achieved as intended, SBA should clearly define the performance goals and set performance targets.

We recommended that SBA enforce standard operating procedures requiring defined performance goals and include performance targets in all future SBDC and WBC cooperative agreements and grants. We also recommended that SBA collect and analyze the CARES Act entrepreneurial development cooperative agreement recipient's performance results and establish a goal-setting process for technical assistance programs established for future disasters. SBA management agreed with both recommendations.

#### *What We Found*

SBA awarded the CARES Act entrepreneurial development cooperative agreements and grants in accordance with applicable federal laws, regulations, and guidance. We found program officials established performance goals and identified performance indicators. However, in order to more effectively ensure performance goals are achieved as intended, SBA should clearly define the performance goals and set targets.

#### *OIG Recommendations*

We made two recommendations aimed at promoting enhanced performance goal-setting measures of the CARES Act entrepreneurial development cooperative agreements and grants. Specifically, we recommended that SBA enforce standard operating procedures that require clearly defined performance goals and performance targets. We also recommended that SBA collect and analyze the CARES Act entrepreneurial development cooperative agreement recipient's performance results to establish a framework for setting goals for future disasters.

#### *Agency Response*

SBA management concurred with both of our recommendations and its planned actions resolve the recommendations. SBA will improve planning for future entrepreneurial development cooperative agreements and grant awards using a more comprehensive, integrated, and strategic approach to define performance goals and targets. SBA also plans to develop and improve its data collection system to collect and analyze cooperative agreement performance results. Further, SBA plans to use program logic models to assist with establishing a framework for setting goals for future entrepreneurial development disaster technical assistance programs.

*Status of Recommendations*

The two recommendations remain open.

**Evaluation of SBA's Award Procedures for the CARES Act Entrepreneurial Development Cooperative Agreements 21-13**

This Management Alert raises the attention of serious concerns with the control environment and the tracking of performance results in SVOG program requiring immediate attention and action.

OIG suggested that SBA should take immediate action to reduce or eliminate risks by strengthening existing controls and implementing internal controls to address potential misuse of federal funds. Strong controls will ensure the SVOG program can effectively help eligible small business owners and entities that have suffered economic injury because of the COVID-19 pandemic.

To address serious concerns and potential deficiencies in internal controls of the SVOG program, we suggest the Administrator:

1. Reassess the audit risk plan to identify vulnerabilities, commensurate with the expected volume of applications and average award amount, to strengthen internal controls and reduce risk of misuse of federal funds.
2. Clearly establish 2 CFR 200 criteria for the program to ensure compliance during the implementation and oversight phases.
3. Implement required performance measures to determine the impact of program funds.
4. Ensure sufficient resources are available to implement and oversee the SVOG program.

In response to the Management Alert, SBA expressed its commitment to working collaboratively with OIG to strengthen the SVOG program.

**COMBATTING FRAUD**

OIG's pandemic oversight efforts already have identified billions of dollars in potential fraud and improper payments. Additionally, in concert with our law enforcement partners, over 100 fraudsters have been brought to justice, with hundreds of millions of dollars being seized and recovered to make the taxpayer whole. OIG also has received nearly 150 years' worth of Hotline complaints (approximately 150,000) pertaining to waste, fraud, and abuse in SBA's programs and operations, which will result in thousands of additional investigations in addition to the several hundred currently ongoing. Investigations pertaining to SBA's pandemic response programs will last nearly a decade due to varying statute of limitations for fraud.

Many of the instances of fraud have been egregious:

- In May, a reality TV personality, was charged with bank fraud. The defendant sought a PPP loan in the amount of \$3,725,500, which was funded in an amount of \$2,045,800. Within days, the defendant allegedly used more than \$1.5 million of the PPP loan proceeds to purchase \$85,000 in jewelry, including a Rolex Presidential watch, a diamond bracelet, and a 5.73 carat diamond ring for himself, to lease a 2019 Rolls Royce Wraith, to make loan payments, and to pay \$40,000 for child support.
- In July, a Florida man was arrested and charged with fraudulently obtaining a \$3.9 million in PPP loans and using those funds, in part, to purchase a 2020 Lamborghini Huracan sports car for approximately \$318,000. Authorities seized a \$318,000 sports car and \$3.4 million from bank accounts at the time of arrest.
- In September, a National Football League player was charged for his alleged participation in a scheme to file fraudulent loan applications seeking more than \$24 million in forgivable PPP loans. The complaint alleges that the defendant conspired with others to obtain millions of dollars in fraudulent PPP loans. This defendant is alleged to have obtained a PPP loan of \$1,246,565 for his own company, and allegedly purchased over \$104,000 in luxury goods using the loan proceeds, including purchases at Dior, Gucci, and jewelers among other uses not allowable.
- In December, 16 defendants were charged in an indictment with various offenses, many relating to the racketeering enterprise referred to in the indictment as “Diamond Enterprise. Charges included racketeering, gambling, extortion, fraud, money laundering, and obstruction of justice offenses. Seeking to fraudulently obtain PPP loan funds were included amongst the alleged criminal actions.
- In February, a Liberty County, Texas, man and woman were indicted for filing hundreds of fraudulent EIDL applications. The two allegedly operated a fraud scheme known as “My Buddy Loans,” that garnered them more than \$700,000 in fraud proceeds and resulted in at least \$1.3 million in loss to the United States. In exchange for a fee, My Buddy Loans took personal identifying information from victims and promised to file an application for an agricultural grant. Instead, the defendants actually filed fraudulent EIDL applications.

Whistleblowers have been instrumental to our oversight efforts. These brave individuals have courageously come forward to help us focus our oversight on vulnerabilities within SBA’s internal control environment and other areas of significant concern. A significant pool of hotline complaints is attributed to reports



of persons alleging identity theft. We have been able to make referrals to SBA to address complainants' concerns pertaining to fraudulent loans, but their reports also informed our ongoing review pertaining to SBA's response to allegations of identity theft. OIG is deeply appreciative of the whistleblowers who have come forward, and we will aggressively investigate any ensuing complaints of retaliation that may be related to these protected disclosures.

#### PANDEMIC RESPONSE ACCOUNTABILITY COMMITTEE

Through the CARES Act, Congress established the Pandemic Response Accountability Committee (PRAC) within the Council of the Inspectors General for Integrity and Efficiency (CIGIE). SBA OIG was designated as a statutory member of the PRAC, which provides increased oversight capacity to the pandemic response efforts. I also chair the PRAC's Audit Subcommittee to provide strategic audit-related direction to the whole of government review efforts. The PRAC's initial successes have been in consolidating the whole of government oversight reports and offering a window of transparency into the pandemic response funds across government.

The PRAC also plays a key role in supporting OIGs' pandemic oversight efforts. For our office, the PRAC identified 10 volunteers to perform a short-term detail to our Hotline. The Hotline received thousands of complaints outside of its electronic complaint submission system. Through the PRAC, these volunteers performed data entry to consolidate these complaints into the case tracking system, where they can be efficiently assessed and addressed. We are also engaged with the PRAC to bolster our internal data analytics capabilities.

#### CONCLUSION

OIG's mission is to provide independent, objective oversight to improve the integrity, accountability, and performance of SBA and its programs for the benefit of the American people. Our focus is to keep SBA leadership, our congressional stakeholders, and the public currently and fully informed about the problems and deficiencies in the programs as identified through our work and to promote corrective action in fulfillment of our mission.

OIG currently is charged with providing oversight of an unprecedented amount of SBA lending authority—over a trillion dollars. The oversight challenges of SBA's pandemic response efforts are significant and, in some instances, systemic. We will continue our efforts to keep the Administrator and this Congress currently and fully informed of our findings. Nothing short of the public trust is at stake, as well as the vitality of the nation's economy.

Questions for the Record  
Committee on Small Business  
Hybrid Hearing: Update on SBA's Pandemic Response Programs  
Tuesday, April 20, 2021, 10:00 A.M.

**Question for Mr. Hannibal “Mike” Ware, Inspector General, Office of the Inspector General, United States Small Business Administration**

The SBA's OIG report stated that they “have received complaints of more than 5,000 instances of suspected fraud from financial institutions receiving economic injury loan deposits.” The OIG reports that their “review of SBA's initial disaster assistance response has identified \$250 million in economic injury loans and advance grants given to potentially ineligible recipients.” The report also found approximately \$45.6 million in potentially duplicate payments.

One of the GAO's recommendations to SBA is to implement an oversight plan to identify and respond to risk in the EIDL program. I have heard common complaints from businesses in my district that the SBA is slow to process EIDL applications, and many get denied without explanation after months of waiting.

**How can SBA protect the integrity of the EIDL program from fraud while processing legitimate businesses in a timely manner and with proper feedback?**

Establishing internal controls and balancing the internal control environment in context of program execution is a program function, as opposed to a role performed by an Office of Inspector General (OIG).

OIG's mission is to provide independent, objective oversight to improve the integrity, accountability, and performance of the SBA. To remain objective, OIG personnel are prohibited by the Inspector General Act of 1978, as amended from engaging in program activities. To promote efficiency and effectiveness within the EIDL Programs, OIG has published three reports that raise concerns and offer recommendations for corrective action relative to the internal control environment. Implementation of our recommendations would strengthen the internal control environment to provide SBA program officials assurance that eligible recipients are receiving funds.

1. April 3, 2020, Report Number 20-12, [Second White Paper: Risk Awareness and Lessons Learned from Audits and Inspections of Economic Injury Disaster Loans](#)
2. July 28, 2020, Report Number 20-16, [Serious Concerns of Potential Fraud in EIDL Program Pertaining to the Response to COVID-19](#)
3. October 28, 2020, Report Number 21-01, [Inspection of Small Business Administration's Initial Disaster Assistance Response to the Coronavirus Pandemic](#)



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April 20, 2021

The Honorable Nydia Velázquez  
Chairwoman  
House Committee on Small Business  
U.S. House of Representatives  
Washington, DC 20515

The Honorable Blaine Luetkemeyer  
Ranking Member  
House Committee on Small Business  
U.S. House of Representatives  
Washington, DC 20515

Chairwoman Velázquez and Ranking Member Luetkemeyer,

On behalf of America's credit unions, I am writing regarding the hearing entitled, "Update on SBA's Pandemic Response Programs." CUNA represents America's credit unions and their more than 120 million members.

The Paycheck Protection Program (PPP) has played an important role in keeping small businesses and their employees afloat throughout the COVID-19 crisis. Credit unions helped Main Street America by facilitating more than 200,000 PPP loans that averaged just \$47,000.

***Urge SBA to Provide Certainty for PPP Loan Forgiveness Applications***

CUNA appreciates the passage of H.R. 133, the Consolidated Appropriations Act, which included language to simplify the forgiveness process for certain loans and allowing lenders and small business owners to remain focused on serving their communities rather than jumping through burdensome regulatory hoops. We acknowledge and appreciate the leadership of Senators Cramer, Menendez, Tillis, and Sinema, and Representatives Houlihan and Upton in ensuring that this provision was included in H.R. 133.

However, there is a large backlog of outstanding PPP loan forgiveness applications that have not received a response from the SBA. Under the SBA's own Interim Final Rule, the SBA is required to issue a decision within 90 days after a forgiveness application has been received<sup>1</sup>. Despite the Interim Final Rule, businesses and financial institutions are waiting well past the deadline for a response.

While we understand there is a high volume of loan forgiveness applications, small businesses and financial institutions need certainty on the status of their applications. We urge SBA to address these delays with loans forgiveness applications and to ensure that SBA has adequate staff in place to provide customer service in the upcoming months.

***Exempt Member Business Loans During and for One Year After the National Emergency***

Looking forward, beyond PPP, small businesses across the country will continue to be in need of funds and credit unions are in a position to pump billions of dollars into the economy. There's only one obstacle stopping credit unions from making these important small business loans: an arbitrary credit union Member Business Lending (MBL) cap which currently limits some credit union lending activity to 12.25% of assets.

<sup>1</sup><https://www.sba.gov/sites/default/files/2021-01/PPP%20-%20IFR%20-%20Loan%20Forgiveness%20Requirements%20and%20Loan%20Review%20Procedures%20%281.19.2021%29-508.pdf>


With many credit unions approaching or at the 12.25% of assets cap, we conservatively estimate that even temporarily removing the MBL cap will provide over \$5.5 billion in capital to small and informal business ventures, creating nearly 50,000 jobs over the course of the next year<sup>2</sup>.

Allowing credit unions the ability to offer more business loans by removing the MBL cap will not replace or crowd out bank business lending activity, it will only increase the pool of resources to small business. SBA research shows that growth in credit unions' small business lending is apparent in many respects, but a majority of credit union business lending is for loans that banks won't originate – which means a majority of credit union lending does not replace lending that would otherwise be done by banks – it is lending that otherwise would not occur<sup>3</sup>. SBA research specifically shows that roughly 80% of credit union business loans are loans that banks would not make.

Small businesses and communities around the country are suffering and need access to relief. Providing credit unions flexibility to temporarily exceed the MBL cap would not only provide small businesses and consumers with the assistance they need immediately, but also stimulate the economy in the long term. As such, we urge swift passage of H.R. 1471, a bill introduced by Representatives Brad Sherman and Brian Fitzpatrick, that would exempt COVID-related lending from the MBL cap for up to one year after the pandemic.

On behalf of America's credit unions and their more than 120 million members, thank you for the opportunity to share our views.

Sincerely,



Jim Nussle  
President & CEO

<sup>2</sup> CUNA estimate assumptions: 1. Grandfathered CUs, Non-Federally Insured and/or Low-Income designated do not increase lending; 2. Non-Commercial lenders lend in amount equal to 1% of assets on average under the new authority; 3. All other Commercial CUs lend in amount equal to 60% of their current use rate; 4. Estimates produced using assumptions 1-3 are further adjusted as follows: \* CUs with net worth/assets <=6% are assumed to have no Commercial Loan growth\* CUs with net worth/assets between 6% and 7% remain at the current 12.25% cap. \* CUs with Commercial Loans/assets >= 10% are limited to a 30% increase in Commercial Loans in the 1st year. 5. First year increases: baseline estimate = 50% of new use rate; adjusted/conservative estimate = 40% of new use rate. 6. Employment increase is based on Council of Economic Advisors 5/09 ARRA job creation estimates (\$92,000 in spending creates 1 job / \$109,633 in 2019 dollars).

<sup>3</sup> Wilcox, James A., The Increasing Importance of Credit Unions in Small Business Lending. Small Business Administration Office of Advocacy (2011).



Office of Disaster Assistance  
COVID-19 EIDL Validations and  
Internal Controls

**INTERNAL USE ONLY**

**Data Validations and System Controls**

- Intake Application form field validations for correct data types and completeness
- Intake form user input review prior to submission
- Applicant data submission certification requirement
- Identity information application velocity check\*
- Identity Information validation\*
- Email address validation\*
- Phone number validation\*
- User identity validation with out of wallet questions\*
- Public records lookups
- Bank account data validation check\*
- Bank account ownership check\*
- IP address and device screening\*
- Credit report for score and fraud flags

**System Decision Controls**

- Duplicate application detection
- Related application linking on multiple data attributes\*
- Red flag alerts for data attributes indicating potential for suspicious activity\*
- ODA Rule of Two requirement for loan approval
- 70+ business rules to determine business eligibility & loan/advance amounts\*
- Role-based approval restrictions
- Role limited reconsideration workflow
- User restricted failed disbursement processing
- User action logging and notes updates

**System Access and Workflow Controls**

- Segmented Workflows with Role Access Limitations
- Two-Factor Authentication
- Multiple failed login attempt lockouts
- IP Address velocity restrictions and blocking\*
- Bank account update access tokenization (Advance Reconsideration)\*



## Office of Disaster Assistance COVID-19 EIDL Validations and Internal Controls

**INTERNAL USE ONLY**

### Network and Application Security

- Azure Front Door – MSFT threat intelligence and identification to guard against SQL injection and other malicious hacking attempts
- Azure – Network Security Group IP rules
- Rapid Server Level Firewall Rules
- Webroot Secure – Server level endpoint protection
- Application level rules – IP blacklisting & whitelisting, User level behavioral blocking, cross site scripting controls, permission based user access to only associated active applications
- Data encryption at rest (MSFT TDE) and in transit (TLS 1.2)

### Attack Mitigation and Security Monitoring

- Azure Defender Security Center - Intrusion detection, vulnerability assessment and overall environment monitoring
- Azure DDOS protection
- OCIO Penetration Testing

*Note: These system controls and validations continuously have been updated, as warranted, throughout SBA's delivery of COVID-19 disaster assistance. Major system enhancements include the following (validation and controls enhancements noted by an asterisk):*

| Date            | Enhancement(s)                                                                                                                                                                                                                                                                                         |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>2020</b>     |                                                                                                                                                                                                                                                                                                        |
| <b>March 29</b> | EIDL COVID-19 Application Intake Form Launched*                                                                                                                                                                                                                                                        |
| <b>April 6</b>  | Applicant Portal & Loan/Advance Decisioning Platform Launched*                                                                                                                                                                                                                                         |
| <b>April 24</b> | Assigned Task Username Display*; Fully Rendered Credit Report*; Additional Permissions for Batch Approval*; User Creation Enhancements*; Display Bank Info Validation Errors to Users*; Loan Resizing; Additional Phone and Email Validations*; Letter Enhancements; Ownership Percentage Validations* |
| <b>April 30</b> | Accept Agricultural Entity Applications; Advance Express Grant Machine; Post Loan Approval Advance Funding*; Enhanced LO Display of Unvalidated Bank Info*                                                                                                                                             |





U.S. Small Business  
Administration

Office of Disaster Assistance  
COVID-19 EIDL Validations and  
Internal Controls

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| Date         | Enhancement(s)                                                                                                                                                                                                                                                                                                                              |
|--------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| May 6        | Create Obligating and Funding Error Tasks*; Contact Info Data Processing Enhancements*; Enhanced Field Validations*; Decline Letter & Email Enhancements; Update to EI Formula*; Increase Server Capacity; Add Account Ownership to CBR*                                                                                                    |
| May 19       | Intake Form Additional Field Validations*; Application Search Filtering Enhancements*; Pass Non-Profit Flag to ETRAN*; Routing Number Validation on Intake Form, Client Portal & ETRAN*; Enhanced SSN Validation*; ZIP Code to State Validation*; System Performance Enhancements; Signatory Enhancements*; Client Portal Help Enhancements |
| June 3       | Email Reminders for Inactivity; Advance Reconsideration Portal*; Additional Data Modification Restrictions based on Stage and Role*; Display Funded Status; Create Funding Hold Checkbox*; Interest Rate Validation for Entity Type Changes*; System Text Updates                                                                           |
| June 18      | Auto-Disposition Inactive Applications*; Add Loan Disclosure Language; Task Search Capability*; LA&A Updates, Allow Funding Hold at Any Stage*; Default Check Advance Request Box; Client Portal Text & Display Changes                                                                                                                     |
| July 9       | Advance Recon for Non-Request Applicants*; ETRAN Interaction and Notes Enhancements*; Invalid Email Error Handling*; Enhanced Bank RTN Validation*; Loan & Advance Amount Exceptions with Permission Limitations*; Tax ID/Entity Type mismatch logic and LO Messaging*; Client Portal Text Modifications                                    |
| July 30      | Intake Form Modifications; Intake Form Field Validation Enhancements*; Advance Decision History*; Notes for Historic ETRAN Errors*; Automated ETRAN Error Daily Monitoring*; Bulk Document Upload with Notes*; Enhances Email Syntax Validations*                                                                                           |
| August 14    | Task for Unsigned Closing Docs; Advance Decision History in Notes*; Decision Engine Label Text Changes*; Bank info History Table*; Tracking and Notes for Application Hold Actions*; Additions to Decline Reasons                                                                                                                           |
| September 2  | Intake App Lookup Screen*; Text Edits for Loans >\$200K; Enable Funding Hold at Any Stage*                                                                                                                                                                                                                                                  |
| September 15 | Loan Reconsideration Process Phase 1*; Update Decline Letter Functionality                                                                                                                                                                                                                                                                  |
| October 8    | Multifactor Authentication Enhancements*; Servicing Office Update*; Loan Reconsideration Process Phase 2*                                                                                                                                                                                                                                   |
| October 27   | Invalid corporate owner EIN validation check                                                                                                                                                                                                                                                                                                |



U.S. Small Business  
Administration

Office of Disaster Assistance  
COVID-19 EIDL Validations and  
Internal Controls

**INTERNAL USE ONLY**

| Date              | Enhancement(s)                                                                                                                                                           |
|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>2021</b>       |                                                                                                                                                                          |
| <b>January 1</b>  | IRS Tax Transcripts and/or FTRs Required for All Loan Approvals; received directly from IRS or stamped copy                                                              |
| <b>February 1</b> | Launched geocoding engine to determine Targeted Advance low-income eligibility based on business address and census tract low-income determination.                      |
| <b>March 3</b>    | Validation with Treasury Do Not Pay List (DNP) Prior to Targeted Advance Funding (loans and loan increases scheduled for April 2021)                                     |
| <b>March 19</b>   | Limited IRS tax transcript data supplied via daily batch process for Targeted Advances. (This is when it went live in Rapid. IRS sent the first file about a week prior) |
| <b>March 24</b>   | Added reasons to funding hold functionality.                                                                                                                             |





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**National Association of Federally-Insured Credit Unions**

April 19, 2021

The Honorable Nydia Velázquez  
Chairwoman  
Committee on Small Business  
U.S. House of Representatives  
Washington, D.C. 20515

The Honorable Blaine Luetkemeyer  
Ranking Member  
Committee on Small Business  
U.S. House of Representatives  
Washington, D.C. 20515

**Re: Tomorrow's Hearing, "Update on SBA's Pandemic Response Programs"**

Dear Chairwoman Velázquez and Ranking Member Luetkemeyer:

I am writing on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) in conjunction with tomorrow's hearing, "Update on SBA's Pandemic Response Programs." As you are aware, NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 124 million consumers with personal and small business financial service products. We thank you for providing credit unions with important tools, such as the Paycheck Protection Program (PPP), to help their small business members during this pandemic. We would like to take this opportunity to share how credit unions have been able to help their communities through the PPP, as well as our recommendations to ensure maximum efficacy of the program in what we hope is the homestretch of this pandemic.

As you know, credit unions have stepped up to ensure small businesses in their communities are taken care of during these uncertain times, and their response through the first two rounds of the PPP was tremendous. Despite the uncertainty surrounding the PPP as it launched and the associated risks, credit unions did all they could to ensure their existing and new small business members were taken care of. According to a NAFCU survey, 87 percent of NAFCU members reported providing PPP loans to new members and businesses that were turned away by other lenders and came to their credit union to apply for a PPP loan. Moreover, compared to other types of lenders, credit unions disproportionately helped the smallest of small businesses. An analysis of the Small Business Administration's (SBA) PPP data from the first two rounds shows that credit unions made loans in amounts much lower than the national average, with the credit union average PPP loan approximately \$50,000. Furthermore, a full 70 percent of credit union PPP loans went to businesses with less than five employees.

We were pleased to see that Congress passed the *Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act* (Economic Aid Act) as part of the year-end stimulus package. The Economic Aid Act contained important support for our nation's small businesses, including authorization of a second PPP loan for the hardest-hit small businesses, simplifying loan forgiveness for PPP loans under the \$150,000 threshold, and repealing the deduction of Economic Injury Disaster Loan (EIDL) advances from the PPP loan forgiveness amount. However, we have heard from many of our members that the loan forgiveness process is still in need of administrative simplification and there has been an inconsistency in the length of time SBA is taking to administer

The Honorable Nydia Velázquez, The Honorable Blaine Luetkemeyer  
April 19, 2021  
Page 2 of 2

forgiveness. We request the Committee implore the SBA to provide quicker loan forgiveness reviews and more proactive and transparent information for lenders.

Additionally, as we [wrote](#) to you last month with a coalition of other financial services trade organizations, the thousands of loan holds by the SBA that backlogged the PPP system during March were potentially problematic for lenders with the previous March 31<sup>st</sup> program deadline. We were pleased to see the bipartisan *PPP Extension Act of 2021*, S. 723, address this issue by creating an additional 30-day window to resolve issues beyond the new May 31<sup>st</sup> deadline.

As the Committee is aware, the SBA issued an Interim Final Rule (IFR) on March 3, 2021 that implements a revised PPP loan calculation formula for Schedule C filers, including sole proprietors, independent contractors, and self-employed individuals. The revised formula allows these small businesses to calculate their loan amount based on gross income rather than net profit, allowing them to qualify for larger loans. As you also know, the SBA has limited this application to new applicants, preventing existing borrowers from benefitting from the changes. We ask that you urge the SBA to make the IFR retroactive so all Schedule C filers, who are truly the smallest of small businesses, can benefit from the policy change.

Finally, the economic impact of COVID-19 and the credit needs of small businesses will be with us beyond the short-term bridge provided by the PPP. While increasing the scope of other SBA programs will help with the recovery, we need to ensure that small businesses have access to as many potential sources of capital as possible. With that in mind, we believe that Congress should consider legislation to exclude credit union member business loans made in response to COVID-19 relief from the credit union member business lending (MBL) cap, such as H.R. 1471, the *Access to Credit for Small Businesses Impacted by the COVID-19 Crisis Act of 2021*, introduced by Representatives Brad Sherman (D-CA) and Brian Fitzpatrick (R-PA). This proposal had bipartisan support in the House last Congress in the form of H.R. 6789, the *Access to Credit for Small Businesses Impacted by the COVID-19 Crisis Act of 2020*, and similar legislation was also introduced in the Senate. On April 16, 2020, a bipartisan group of 65 representatives wrote to House leadership to urge this issue be included in future pandemic relief. Moreover, National Credit Union Administration (NCUA) Board Chairman Todd Harper and Board Member Rodney Hood have voiced their support for MBL cap relief as a step to make it easier for credit unions to do more to help small businesses in light of the pandemic.

We thank you for the opportunity to share our perspective on this important topic in advance of this hearing. Should you have any questions or require any additional information, please contact me or Janelle Relfe, NAFCU's Associate Director of Legislative Affairs, at (571) 289-7550.

Sincerely,



Brad Thaler  
Vice President of Legislative Affairs

cc: Members of the U.S. House Small Business Committee



## PPP & EIDL Oversight Info For April 20, 2021 HSBC Hearing

### GAO Audit Activity for SBA's Offices of Capital Access and Disaster Assistance Since January 2021

1. Economic Injury Disaster Loans (EIDL) and Advances for COVID-19 (Audit #104417)
2. Monitoring and Oversight of Response to Coronavirus Pandemic (#104526-March Report)
3. Implementation of the Paycheck Protection Program (PPP), (Audit #104358)
4. Characteristics of a PPP Loan, (Audit 104427)
5. COVID-19 Hiring Flexibilities (Audit 104297)
6. Disaster Assistance Outcomes (Audit 104039 – Non CARES Act)
7. Disaster Loan Performance (Audit 104077 – Non CARES Act)

To date in 2021, SBA has arranged thirteen interviews with GAO and SBA staff, senior officials and contractors to address GAO questions about PPP and EIDL data, systems and internal controls, including:

- Demonstration of (1) EIDL loan processing system and (2) loan officer review of applications
- Processing and Disbursement Center interview – Fraud Controls
- PPP Machine Learning – Alert Scoring demonstration

To date in 2021, SBA has also provided GAO with:

- 136 documents
- 154 written responses to questions
- Six large scale data requests with several million applications per request
- Written responses to: Exit Document and Draft Report for March Report 21-387 under CARES Act Mandate – EIDL & PPP Enclosure (Engagement Code 104526)

### SBA Progress Regarding PPP & EIDL Oversight Efforts

- SBA has contracted with Deloitte to perform a formal fraud risk assessment of PPP & EIDL programs. This effort is being led by SBA's Office of the Chief Financial Officer.
- Currently, SBA is in the evidence collection phase of the assessment, which will help determine the full scope and timeframe for the assessment.
- SBA anticipates this assessment, once completed will address GAO and OIG oversight recommendations regarding fraud risk in PPP & EIDL.

### SBA has taken the following steps to address issues of waste, fraud, and abuse within the EIDL and PPP programs:

- EIDL: SBA has leveraged technology to implement more than 30 validations and system controls, including data validations and controls, system decision controls, system access and workflow controls, network and application security, attack mitigation and security monitoring.
- EIDL: SBA has incorporated more than 70 business rules to determine business eligibility.
  - Please see the attached list of COVID-19 EIDL Data Validations and System Controls.
- PPP: Upfront validation checks were inserted into the loan origination process to flag loans with potential fraud and eligibility issues.
- PPP: Implemented machine learning functionality into review process to focus resources on areas of higher risk.